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EXAMINATION OF 22ND DISTRICT
AGRICULTURAL ASSOCIATION

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REPORTER'S TRANSCRIPT
OF HEARING BEFORE
SENATE FACT FINDING COMMITTEE
on
GOVERNMENTAL ADMINISTRATION

LEGISLATIVE REFERENCE
SERVICE

VOLUME II

EXAMINATION OF 22ND DISTRICT
AGRICULTURAL ASSOCIATION

REPORTER'S TRANSCRIPT
OF HEARING BEFORE
SENATE FACT FINDING COMMITTEE
ON
GOVERNMENTAL ADMINISTRATION

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HUGO FISHER

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will refer you to page 7 of the Division of Audits Report.

A Go ahead. Go ahead.

Q There is a list of construction projects in which the Division of Audits states that there were no bids -- no written bids obtained and no service agreements prepared, and Department of Finance approvals were not obtained. Do you take any exception to those, the list there?

A Well, I would say you have a list here, including two large items for the Del Mar Turf Club, and I would presume that that -- those items were paid to the Del Mar Turf Club for carpenter labor. You have California Electrical Works in this list three times, and that was for electrical work for -- getting ready for the Fair.

Q Well, I -- I am asking you if you take exception to the Division of Audit finding?

A That no written bids were obtained?

Q And no service agreements were prepared and the Department of Finance approval was not obtained.

A That is probably correct. I would say that the Del Mar Turf Club Operating Company situation of hiring the carpenters was well known to the Division and we were advised that we could not pay -- and I probably am not using the right term -- welfare funds or fringe benefits -- I will have to leave it wide open, because it isn't a welfare fund -- a fringe benefit fund to our carpenters, and for

that reason, the carpetners were -- would not accept a higher wage to cover those fringe benefits; they wanted the fringe benefits, and so we were obliged to use the Del Mar Turf Club, and they did not charge us anything for running -- doing the paper work through their books.

THE CHAIRMAN: Senator Fisher.

Q BY SENATOR FISHER: Well, that -- you are now referring to three of the items in that list on page 7, are you not?

A That is correct.

Q You are not referring to the California Electric Works, or the Ray Cramer or the B. G. Cozens -- you are not referring to those?

A No, the Cozens and Sons, I believe was a contract using some of their equipment and was on an hourly basis.

Q But none of those included the work that you were routing through the Del Mar Turf Club?

A No, sir. That is correct.

Q And you have, so far as you now recollect, no service agreements covering either that run through the Del Mar Turf Club, or those not run through the Del Mar Turf Club, listed here on page 7 of the 1958-59 Audit?

A You are correct.

THE CHAIRMAN: Mr. Waters.

Q BY MR. WATERS: Mr. Mannen, under Chapter 36.1 of the Fairs Administrative Manual, it is stated, "Department

of Finance policy requires that all purchases shall be made on a competitive basis, whether the purchase is over or under \$500. Whenever possible, at least three bids should be obtained. Copies of all bids and correspondence relating to the bidding should be filed with the purchase document."

Is it your statement that you followed that procedure?

A I would say that it's apparent that I did not in all cases.

THE CHAIRMAN: Mr. Mannen, you would have some difficulty in submitting three copies of oral bids?

THE WITNESS MR. MANNEN: That's right.

THE CHAIRMAN: You would not have any difficulty submitting them if you put them -- wrote them down.

THE WITNESS MR. MANNEN: Wrote them down, right.

SENATOR FISHER: That's a copy of a bid.

THE CHAIRMAN: Is that a copy of the bid?

SENATOR FISHER: Or the original?

THE WITNESS MR. MANNEN: Okay.

SENATOR FISHER: I think the wording is original or copies.

THE WITNESS MR. MANNEN: Okay.

THE CHAIRMAN: Then, one more question, Mr. Mannen, it's not true that -- according to the regulations, that they accepted oral bids in this procedure, as far as the

Department of Finance is concerned?

THE WITNESS MR. MANNEN: Apparently not.

Q BY MR. WATERS: Now, in that same manual, under Chapter 35.26, it is stated under the heading, "Projects costing more than \$5,000 and less than \$10,000, the following information will apply: Prepare clear and complete specifications for the work. Since the law makes bidding mandatory, the specifications must be adequate for the purpose and must be adhered too strictly in order that comparable bids may be obtained."

Is it your statement that you followed that regulation in all instances?

A Well, all is a pretty inclusive. I would say that in most cases we did.

Q But you didn't with reference to these specific things that are listed on page 7, in which the Division of Audits lists, "No service agreements were obtained and the Department of Finance approval was not obtained, and no written bids were obtained."

A Well, this total of \$21,000, with Turf Club items out of it, which were explained separately, it still is, percentagewise, a small item out of the \$500,000 budget, our operating budget for the year.

Q BY SENATOR FISHER: Well, these statutes and regulations don't apply just for people with little budgets, do they?

A No, they do not. We do have --

Q Whatever your budget is, they apply in these particular instances?

A We do have some problems in that we were not allowed to have an assistant manager, or any additional help. We were limited very similar to Fairs of a much smaller nature, and maybe a few of these things would have been covered, had we had additional help, but we had requested it on many times and had been turned down.

Q BY MR. WATERS: In connection with some ribbons and trophies purchased in 1959 for the horse show, which totalled \$5,000.00, I would like to ask this question:

Were there any bids obtained for that purchase?

A No, I don't believe there were.

Q Why not?

A We liked the way that the work had been performed and it actually included more than just trophies and ribbons. It included a particular segregation of the ribbons, and the placing of the ribbons and the making up of cards, and quite a few other items that were not included on the average request and not even available from some of our competitors, and we -- a few years ago, when we could not get the bids when we attempted to get them on these items, why, we started doing business with the -- I don't recall the title of the trophy company, but it probably is in your list.

Q Studio City Ribbon and Trophy Company?

A Right, and they delivered what we wished and continued to deliver each year.

Q The Studio City Ribbon and Trophy Company is owned and operated by whom, Mr. Mannen?

A Allen Ross.

Q Mr. Allen Ross was under contract at that time to the District to act as Horse Show Manager, was he not?

A That is correct.

Q Why would it not have been his duty then to prepare these things that you have just described in connection with the trophies and ribbons?

A Well, it could have been his duty, but it did not happen to be in the situation as we were operating at Del Mar.

Q So that you think that the purchase of the ribbons and trophies included more than just a ribbon and trophies, but included some work that the Horse Show Manager performed and could have performed as Horse Show Manager, no matter where you bought the ribbons and trophies; is that correct?

A Well, you said "could". I would say that any person, knowing what was necessary, could perform a given duty if they were given sufficient instructions.

Q Referring to the contract you had with Allen Ross, Ltd., to provide Allen Ross as Manager and announcer of the horse show, and in this connection, quote -- this

was a provision -- page 14, excuse me, Mr. Mannen -- there was a specific provision in the contract, "To provide own secretarial help". Did Mr. Ross provide his own secretarial help?

A Yes.

Q Did the District also provide him some secretarial help?

A We provided him with a female employee. I do not know whether it was secretarial, or exactly what she performed at this time.

Q You don't know what she did?

A I would like to refer to the records, and I do not have the records with me.

Q Who employed her?

A I would say that she was employed by me.

Q For what purpose did you employ her?

A To assist Mr. Ross in properly preparing to put on a first class show.

Q And that would have been secretarial, would it?

A It could have been secretarial. It could have been under the judging or the exhibits department. Whether you are going to call it a clerk-secretary, or just where you would classify such a young lady, I do not know.

Q At the same time the District had a contract with Mr. Ross under the name of Tanbark and Turf, Incorporated, to furnish public address system, a stable manager,

gatemanager, ring steward, ring master and ring clerk. Did he provide those people?

A I believe he did. They were not individual people. I believe he filled some of the positions himself.

Q Who do you believe he provided?

A I will have to look to the records on that, Mr. Waters.

Q Which functions do you believe he performed himself?

A I haven't -- which paragraph are we on.

Q All right, one, two, three, four --

A Roughly.

Q The fourth paragraph on page 14.

A "The same provision for satisfactory performance was contained in a second contract for horse show management with Tanbark and Turf, Inc., a corporation under the control of Allen Ross, which agreed to furnish the public address system and a stable manager, gateman, ring steward, ring master and ring clerk."

I would say he did quite a few of those things himself, and had one additional man help him, because to be gateman, he couldn't very well have been in some of the other capacities.

Q You don't think he performed a gateman's function?

A I would -- I would doubt it at this time.

Q But you think he probably performed the other

functions?

A Well, I would say he probably was stable manager. As far as ring manager and ring clerk, I believe he did his own calling of the classes and so on and so forth, and was probably qualified for most of those other positions.

Q Steward?

A I would not know.

Q Well, then, what was the purpose of the contract, since you already had Mr. Ross working for you, if he did all these other things himself anyway?

A We had two contracts with him as I recall, one for \$1,750 and the other -- I don't recall -- I don't see the figure here; probably you could help me.

THE CHAIRMAN: Senator Fisher.

SENATOR FISHER: Mr. Chairman, I wonder if the last question could be repeated.

(The question was read by the Reporter).

SENATOR FISHER: I wonder if you got it, or Mr. Mannen didn't get it.

THE WITNESS MR. MANNEN: I didn't get the second figure. Could I --

Q BY SENATOR FISHER: Do you understand the question, Mr. Mannen?

A Yes. I think I would have to have the entire contract in front of me to digest it, and it would take some little time.

Q I think what Mr. Waters is getting at, and the thing -- I think it would be helpful to us if you could at least give us your recollection on it, as I understand it. He was hired as manager of the horse show under one contract, and under another contract it was required he was to provide these various services listed here, which we have been discussing, under a separate contract, and as I understood your testimony, or maybe I am wrong, Mr. Ross did in fact perform all these other services as well, and I think the question is: Why did we have to enter into two contracts; we already had him available as manager to go ahead and do these things if he had the time?

A Well, several years back -- I don't know the exact year, Senator -- we did have two contracts for two different duties. One was taken care of early in the season and another one later due to some reason; I can't recall, and so we had two contracts and we continued to use two contracts each year from that period on.

Q Even though the same man was performing all the functions, you nonetheless had two different contracts?

A Yes.

Q I am not clear, Mr. Mannen, under which of these contracts he was purchasing the ribbons.

A Neither.

Q Under neither?

A No.

Q That was a separate contract?

A No, we had no contract with him to -- we prepared the order and he supplied the ribbons for the horse show.

Q But that didn't come within the terms of either of these contracts?

A No.

Q And did you cover the question as to whether or not his duties as manager of the horse show required him to get the ribbons or not.

A I don't think that that was in the contract. Is that your question?

Q Well, you were general manager. When you hired him as manager of that portion of the Fair, was this one of his duties, to get the ribbons --

A It was not specified in the contract. I am quite sure it was not one of his duties, direct duties.

Q Well, did you -- did you instruct him one way or another?

A I would say a few years back, yes, he was given instructions to get the ribbons, and under a particular program, or --

Q And was he at that time made aware of the bidding statutes of the State of California when he was working under your direction?

A Probably; probably so. I am not sure.

Q Did you make any effort to ascertain whether or not

he followed those bidding statutes?

A At the time, I believe not.

Q Well, at any time over the years?

A I would have said probably that I had given him instructions, because I usually gave some written instructions at various times to do certain things and they would have been blanket.

Q For how many years was Mr. Ross manager of the horse show?

A Quite a few.

Q All the years you were manager?

A I believe so, yes.

Q And you never at any time during that period ascertained whether or not he was complying with the bidding statutes, the Fairs and Exposition Manual we have been discussing here; you never ascertained whether or not he was complying with those provisions?

A I assumed he was complying with them, because of the reports that came out in examinations that stated time and time again that we were complying, generally speaking, with the regulations.

Q Well, as I read the manual here, all of these bids had to be submitted to the -- to the Division of Fairs and Expositions; is that not correct, along with the originals or copies of three bids?

A Yes, that is apparently correct.

Q Do you ever recollect seeing any of those?

A No, I do not.

Q You didn't --

A I do not.

Q He didn't require your individual approval, he didn't go over these bids or any of the work submitted to the State of California to the Department of Finance by managers such as Allen Ross under your jurisdiction?

A If I followed you correctly, the answer is no.

Q BY MR. WATERS: In connection with the trophies, did the District receive donations from various individuals for the purchase of trophies for the horse show?

A Yes, we did receive funds for trophies, quite a sizeable number.

Q These moneys were given to the District for the specific purpose of a trophy being given for a -- in a specific class in each instance in the name of the donor?

A I would not say in a specific class in every case, because sometimes they would give it in the children's classes, which would encompass quite a large number of classes.

Q In some cases, these would be specifically for a specific class?

A I would say yes, very definitely.

Q Were you aware of the fact that in some instances where twenty-five dollars was received for a trophy, that

only a fifteen dollar trophy was purchased?

A I wasn't aware of the fact that there was any difference in that -- the amount spent.

Q Well, if I told you as a fact that that happened, to whom would you say the other ten dollars belonged?

A Well, not being the recipient of the gift, it would be a little hard to say. Probably the donor stated that they would like to have a particular class taken care of and didn't care about any -- of any balance due.

Q You were not the recipient; the 22nd District was in fact the recipient of the donation, was it not?

A I would say probably the District was the reason for them giving the gift.

Q No, not the reason. The District received the money, did it not?

A Oh, that's quite certain. That's quite certain. It went through them.

Q It received the money in many cases for a specific purpose, that is, a trophy to be given in a certain class in the name of the donor?

A You are probably correct.

Q And I am asking you in the instance where twenty-five dollars was received in that situation and only fifteen dollars was spent for a trophy, to whom does the balance of the money belong?

A I would say the 22nd District. It's according

to how it was given, however.

Q Were you aware of the fact that in the purchase of trophies, Mr. Ross charged you at least the full retail price of the trophies?

A No, I was not.

Q Now, Mr. Mannen, there was some testimony and there's some evidence in the record of some relationship, or some use of the -- of the 22nd District property by the Western Harness Association --

SENATOR FISHER: Mr. Waters, you are proceeding beyond the question of Allen Ross? I have a couple more questions if you are.

MR. WATERS: All right. Withdraw that.

Q BY SENATOR FISHER: I notice that the 1958 bill for ribbons and trophies was about forty-two hundred dollars, and in 1959, about fifty-seven hundred dollars. Was this generally the range within which this bill fell each year?

A Trophies and ribbons, yes.

Q Between four and six thousand, roughly?

A Yes.

Q All the time you were manager?

A I do not -- I could not --

Q Roughly speaking.

A -- recollect.

Q How were these bills paid?

A Paid by District check.

Q And who drew the District checks?

A I drew the District checks.

Q Were you a signatory on those checks?

A Yes.

Q Did you, at the time that you signed the check for \$4214.34 -- did you make any effort to ascertain whether or not the matter had been put out for bid, and that there were three originals or copies of the original bids, along with the service contract?

A No, I did not.

Q Was there a service contract for this without those bids attached to it?

A No.

Q Pardon?

A No, I don't believe so.

Q Then, in 1956, at least at the time when that check was drawn, you did have in mind that Mr. Ross had not complied with the bidding procedure provided in the manual; is that not correct?

A I did not. Wait a minute, you better go over that again. I am sorry, Senator.

Q You apparently signed a check for \$4214 to Studio -- was it Studio City Trophy and Ribbon Company -- for the 1958 ribbons and trophies for the horse show; is that correct?

A Right.

Q At the time you signed that, you had no service contract in front of you open to you?

A No, I did not. I did not.

Q And you did not seek to find out why one wasn't present?

A No, I did not.

Q Did you discuss it with Mr. Ross at the time?

A No, I don't believe I did.

Q Well, what about the year before that, was it --

A No.

Q And the year before that?

A I can't recall of any.

Q And in none of these years, were you presented with a service contract or with copies of three bids?

A That is correct.

Q For payment of the order of four to six thousand to one -- one concern?

A That is correct.

Q And were these checks ever paid before they were approved by the Board of Directors?

A I would say the checks were probably drawn before they were approved by the Board of Directors.

Q They were drawn?

A They may not have been paid.

Q They were drawn, but not issued?

A Well, we would go and mail them all out before

the 10th. It's according to what day of the month they met.

Q Well, if the Board met before the 10th, they got a chance to approve it and if they met after the 10th, then the check was already gone; is that right?

A That is correct. We usually had the mail ready and mailed them when they met before the tenth at the same time that they approved them.

Q Well, the years up until 1959, did anybody else -- was anybody else required to sign these checks?

A Required?

Q Yes.

A There were several people that could sign checks at any time for the District.

Q But you alone could sign checks?

A I could sign checks up to \$5,000.

Q So if the amount were under \$5,000, you were the only one who would know that there was no -- that there were no bids and that there were no -- there had been no service agreement entered into; is that correct?

A That would be correct. I was the only one that would sign the checks up to \$5,000.

Q Did you at any time, over these years, advise the Board of Directors that you had -- that neither you nor Mr. Ross, who was manager of the horse show, under your direction -- did you ever advise them that no bids were

being received from Studio City Trophy and Ribbon Company on these amounts of four to six thousand dollars that were being paid each year?

A We received quotations from Studio City Trophy Company quite often and the Board of Directors knew that the horse show trophies and ribbons -- the trophies, being a particular item that you might carry along with the program for several years, carrying out a pattern of a similar type of trophy -- and they were aware that the purchases were being made from the Studio City --

Q Well, were they aware that the requirements set forth at 36.17 in the Manual to the effect that the original -- originals or three copies, or copies of three bids should accompany each of the service agreements?

A Probably they were not aware.

Q And you didn't advise them that they were not accompanied?

A No such bids had been received, no.

Q Were they aware of the fact that Studio City Trophy and Ribbon Company was in fact owned or controlled by Mr. Allen Ross?

A Yes, they knew that.

Q Did that enter into the minutes at any time that you recall?

A I don't think so.

Q You did prepare the minutes over the years, did you not?

A Yes, they were.

Q Or under your direction?

A They were prepared under my direction.

THE CHAIRMAN: We will interrupt and take a five minute break.

(Whereupon a short recess was taken, after which the following proceedings were had:)

THE CHAIRMAN: The committee will come to order.

Mr. Waters.

Q BY MR. WATERS: Mr. Mannen, is it the usual procedure when you have a service contract to have approval of the Board before it is signed?

A Approval of the service agreement itself before it is signed?

Q Service agreement, yes, sir.

A I would say not necessarily so. It would be approved by the Board, either before or after signature of the parties.

Q Well, it requires Board approval, does it not?

A Yes. Yes, uh-huh.

Q So that in these situations where there was no service agreement, how did you get Board approval?

A The Board approval probably was reflected in their approval of the item itself as it was paid.

Q You testified that you paid bills without the Board first approving them?

A The Board had approval and/or they could have had the denial; however, this custom had gone on for years of paying the bills and at the request of the Board that they be paid when due, and they approved them afterwards.

Q Well, they couldn't disapprove then if they were never submitted for approval, if the service agreement was not -- did not exist, it could not be submitted for approval, could it?

A That's right.

Q And if the bills were paid before they were submitted for authorization to the Board to be paid, they couldn't disapprove it, could they?

A That's right.

Q Were all bills at all times submitted to the Board before or after for their approval?

A I believe so.

Q You wouldn't say that that was the case definitely, would you?

A Well, Mr. Waters, in handling the funds over a number of years, the total amount of probably over six million dollars from the time I was in office, I would say that sometimes the typewriter may have missed one, and it maybe was not put on the list and given to the Board, or something of the sort. Quite possible. I have --know of no particular instance when the bills were withheld from the Board.

Q Well, but it is possible some bills were not submitted?

A Quite possible.

Q Did you ever sign any checks over five thousand dollars without any second signature?

A I would say that I probably signed quite a few without a second signature, because a second signature probably was obtained after I placed my signature on it. Did I answer your question? I mean, is that --

Q You answered my question. I didn't ask it right.

A Okay.

Q Did you ever issue any -- any checks in the amount -- in excess of \$5,000 without two signatures?

A Well, I come back to the same answer. I would presume that they were always issued in excess of \$5,000 -- when the amount was of such a figure, my signature affixed and then the second signature affixed.

Q Yes.

A In the mailing of any out, any of them out with only one signature on, I do not recall of any, and do not believe we did. It's quite possible; the bank had its instructions and should have bounced it back, however.

Q In connection with the Western Harness Association, who authorized the use of the 22nd District property by the Western Harness Association?

A The original lease arrangement or wintering of

the Western Harness group at Del Mar was undertaken along back about 1947, I believe, and for several years, the District operated the operation and paid all of the expenses; however, with the maintenance agreement coming into effect, I believe in 1953, the Del Mar Turf Club -- with the Del Mar Turf Club, it seemed wiser that it be handled directly by them, because previous to that time even, it was quite -- quite an item, because the Turf Club owned all of the equipment that was necessary to maintain the track. We would rent it from the track, providing maybe a driver, and they only wanted certain drivers, so we, in effect, were renting the driver sometimes, and the equipment together; other times, just the equipment and our driver, and so we felt it was -- would be much wiser for them to handle the entire operation and so the Turf Club was asked by the Board to handle the arrangements after that date with the Western Harness Racing Association and the Del Mar Turf Club.

Q Was asked by the Board?

A Yes. I am quite sure those discussions will show up in the minutes of the Board, and we believed -- had a building committee that met with them, and it was agreed at that time that the Western Harness Racing Association could best negotiate direct with the Del Mar Turf Club.

Q Was there any written agreement between the District and the Del Mar Turf Club or the Western Harness Association for that use?

A Between the Del Mar Turf Club and the Western Harness, I believe there was.

Q No, sir. Between the District and the Del Mar Turf Club, or the Western Harness Association?

A The only thing that I recall was the letter that was read this morning that I delivered at the request of the Board of Directors.

I do not believe there was a written agreement. I think that after you have had a Board of Directors that you have worked with over the years, and you have worked with such tenants as we had in the Del Mar Turf Club, and the Del Mar Caterers, you work somewhat as a family. You get -- you have confidence in each other, and it may have been that there was not any other formal agreement, other than the letter that was presented this morning.

Q Isn't it usually required that you have a written agreement between the District and some person who is going to use the property?

A I believe under the maintenance arrangement that that may not have been necessary.

At least, the auditors did not seem to consider it as a vital item, did not pick it up.

Q How did the auditors know about it?

A The auditors would usually be in there and know the entire operation of the Fairgrounds, and the fact that Western Harness was there was generally known to the

Department of Finance and the public in general in this County.

Q How would it be known to the auditors, Mr. Mannen, if there was nothing -- no receipts in the book which would disclose that use?

A Only the general -- the general knowledge that the operation was a usual procedure for five months out of the year at the Fairgrounds.

Q Isn't it a usual procedure when you grant someone permission to use the Fairgrounds that there would be an agreement which would then require the approval of the Division of Fairs and Expositions?

A I would say that probably the Division of Fairs and Expositions were well aware of this arrangement.

Q The question, Mr. Mannen -- would you read -- Would the Reporter read the question?

(The question was read by the Reporter).

THE WITNESS MR. MANNEN: I would say that that was probably correct on anything of this size.

Q BY MR. WATERS: How else could you obtain the approval of Fairs and Expositions, if it were not in writing?

A Probably by the fact that there was no action on their part, either opposing it or not.

Q Aren't you required to get approval?

A I believe that is correct.

Q BY SENATOR FISHER: You didn't make any specific

request in writing for approval to the Department of Finance for this arrangement?

A I would imagine that we did, Senator; however, the files are not at my disposal and it probably would take some searching. We are going back six years, are we not; seven years. Seven years.

Q You don't recollect whether or not, one way or the other, whether --

A You are -- That is correct. I do not.

Q BY MR. WATERS: Now, in connection with the building -- the warehouse building and the cafeteria building of the -- that the Del Mar Caterers constructed on State property, was there any written agreement between the District and the Del Mar Caterers to grant them permission to build either of those buildings?

A I believe there was an excerpt from the minutes on both occasions given to the Del Mar Caterers.

Q Well, that would not be a written agreement, would it, Mr. Mannen?

A Not a written agreement. It would be giving them permission.

Q How would -- how would you provide for the occupancy, the terms of the occupancy, insurance, maintenance, and other matters if you did not have a written agreement?

A Well, we had a written agreement with the Del Mar Turf Club, which -- wherein they were providing this

cafeteria, particularly, which is the larger item of the two, for the Del Mar Turf Club -- for the Del Mar Caterers, excuse me, and it was somewhat of a firetrap, and in the discussion, it was decided to build a new one.

We had no funds available at the time and the Del Mar Turf Club did not feel that they wanted to do it. The Del Mar Caterers built it on the Fairgrounds. I presume it's a matter of \$30,000 or so that is built on the Fairgrounds and will be the property of the 22nd District at the expiration of the lease.

Q Why is it not --

A If and when.

SENATOR FISHER: Excuse me.

THE CHAIRMAN: Senator Fisher.

Q BY SENATOR FISHER: Did I understand that you have a written agreement with the Del Mar Turf Club covering the catering?

A No, we do not have an agreement covering the catering. We do have the agreement -- I don't know the exact wording -- you went over it so many times -- the appurtenant facilities.

Q That's why I asked the question, because I don't recollect any agreement.

A There is no agreement between the two.

Q To which the District is signatory, covering this catering question, either with the Del Mar Turf Club or

Operating Company, or Boys Incorporated of America, or Del Mar Caterers? I don't recollect any such.

A And we do not have any direct --

Q The only thing that's been pointed out to us is this excerpt from the minutes. Is there any other piece of paper that was issued by the District that you recall?

A Not that I know, I said.

Q Either party?

A No.

Q Was a copy of those minutes submitted to the Department of Finance for approval?

A Yes, the Department of Finance gets our -- receives our minutes, and if there are any comments, which they have, it's surprising how well they go over them with a fine tooth comb, and tell us about items before they even become in existence.

Q Was there any letter or certificate of approval, or anything else from the Department of Finance directed to the District, saying, "We approve the permission granted by you to the erection of a building on our property"?

A Not that I know of, and there -- likewise, I don't know that they did not.

Q Well, I am just asking for your best recollection. You do not recall any such specific approval?

A No, I do not, no.

Q You are assuming in your answer approval, merely

because they didn't say something about it when they looked over the minutes?

A You're right, because they did that, I know, enough.

Q And you are assuming they looked over your minutes for that particular day?

A Right.

Q It was never submitted specifically as a question to them as to whether or not they would approve your granting the right of occupancy and right of erection of a building at that point to the Del Mar Caterers?

A That I would have to say I don't know, because it could have been.

Q You don't recall?

A I don't recall, yeah; I am sorry. I didn't mean --

Q BY MR. WATERS: Well, Mr. Mannen, the way you would ordinarily secure approval of the Division of Fairs and Expositions, in a situation like this, would be to prepare an agreement and send it to Sacramento for their approval? Is that not correct?

A That is correct.

Q And this was not done in the case of the cafeteria?

A I don't know.

Q BY SENATOR FISHER: Insofar as you recollect?

A Yeah. I mean, that's seven years back, Mr. Waters, and I really couldn't recall whether there was or not.

Q BY MR. WATERS: Well, --

A You had a minute order from the minutes this morning, an excerpt that was given to you, and I would presume that there were additional letters or a contract in the file. I do not recall of one being written, nor do I recall that one was not written.

Q Well, this was not a minor item in the conduct of the Fair, which you were managing?

A It wasn't a minor item?

Q No, it was a fifty thousand dollar bill?

A I don't think any of the items were minor.

Q Do you recall whether or not there was any approval by the Division of Fairs and Expositions for -- for the plans for the building?

A I do not.

Q To the best of your recollection, would you say there was or there wasn't?

A Probably there was not. I do not recall the plans being submitted.

Q In the --

A To the Division of Architecture.

Q In the case of the warehouse, would that be the same situation?

A Yes, that was a Butler building, and I would presume, its plans being a standard building, it could have been that the exact plans were not submitted.

Q Now, did you know that the Del Mar Caterers were operating on a year-around basis out of the warehouse?

A Yes, I imagine that they did pull in and out of there on the year-around basis.

Q Well, why did you, as manager, allow them to do that when there was no written agreement, and no payment was being made?

A The Board had previously approved the building of the building, and the location of it in a particular location.

THE CHAIRMAN: Senator Fiser.

Q BY SENATOR FISHER: Mr. Mannen, I find in the Administrative Manual again, under Section 35.5, and for the record, I should state that all of Section -- Chapter 35 deals with contracts, both specific and general -- at 35.5, there is a paragraph which is headed: "Form F-34 License Agreement for use of Fairground Facilities," and provides as follows:

"The Board of Directors authorizes by resolution the use of fairground facilities for any purpose other than during the conduct of the Fair. Directors should determine that non-fair uses of fairground facilities are not incompatible with the interest of the Fair.

"Briefly, and as a general policy, the publicly owned fairground should not be used by private parties

for profit in competition with private enterprise, and the rates should -- to be charged should be comparable to the rates which would be set for privately owned ground or buildings.

"In cases where the fairgrounds are leased by a non-profit association for purposes of public welfare, or for an interest beneficial to the public, only charges for actual costs and so forth are desirable."

Then, it goes on to say:

"Only those forms F-34 for non-fair uses, which cover a period longer than one week," -- then it excepts stall rentals and then has another alternative, "require prior approval of the Department of Finance."

Now, this would indicate that an F-34 form was required in this instance, because it was for a non-fair use, for private profit, for a period more than one week.

It requires not only the Board of Directors authorization, but further that it was not effective without prior approval of the Department of Finance.

Now, were you aware of that?

A No, I was not.

Q That portion of the manual at the time that you --

A No, I was not.

Q -- you gave permission to the Del Mar Caterers to build a building on the fairgrounds?

A No, I was not, and I don't think the Board was

aware of it. It's probably one of those sections -- that's quite a detailed book, and, as you know, a manager has to be a specification writer, he has to be a showman, he has to be a landlord and quite a few other items.

Maybe on the legal side we could have used somebody that was reading that every few days, because we did miss that, undoubtedly.

Q Well, then, you let somebody put up a building of that size on -- on public property, which is under your control, and under your direction, that -- for a moment did it occur to you that there were not some regulations that might cover that?

A That is true, and we probably did delve into them at the time. I do not recall. There was probably --

Q But in fact, no such form F-34 was ever submitted to the Department?

A I do not believe so. It is probably a building worth \$10,000, and the State in effect is going to get a building, let's say it's there ten years -- get a ten thousand dollar building for rent, you might say, over a period.

Q Either you are guessing like I am as to what the Department would have done in the circumstances --

A I am not guessing what the Department would have done. I was just bringing the fact out.

Q Obviously they didn't want you to guess; they

provided for a prior approval before you proceeded with such an arrangement; isn't that correct?

A Right.

Q And that procedure was not followed in this instance?

A No, it was not.

Q Insofar as you now recollect?

A No, it was not.

Q BY MR. WATERS: Mr. Mannen, doesn't a manager of a District such as you managed have a responsibility to follow the regulations provided in the manual and the State law and see -- and advise the Board as to what those regulations and laws are ?

A That is correct.

Q Mr. Mannen, there was one matter in the examination which related to insurance. There was an insurance sale in which your company participated? Is that not correct?

A There is a company in which I had stock that participated, yes.

Q The North Coast Investment Company?

A Yes.

Q You are a stockholder?

A At the time I was a stockholder and I still am.

Q And what was your financial interest, percentage-wise, in that company?

A I owned fourteen percent of the stock.

Q Did you make any inquiry as to whether or not, that is, of the Department of Finance, Division of Fairs and Expositions, or did you get any legal counsel as to whether or not you, as the manager of the District, could buy insurance from -- from a company in which you are approximately one-seventh owner?

A I did not check on that specific item.

Q It did not occur to you that there might be some law which would prohibit such a transaction?

A Well, I own stock in Standard Oil and we use Standard Oil products, so I didn't know where the division would have come.

Q There is a division, Mr. Mannen.

A There is a division? I would appreciate knowing it, even though I am not in State employ at the present time.

Q Are you an officer in the North Coast Investment Company?

A Yes, sir.

Q I will say, in fairness to Mr. Mannen, it should be placed in the record what the amount of the premium was, and I will ask Mr. Mannen to tell us the amount of the premium which the North Coast Investment Company received in that transaction.

A Well, I will have to read it out of here, so I -- \$48.66, so if I had one-seventh of that, it was about nine dollars, would you say -- seven dollars. Excuse me, I should

know my figures better than that.

Q Yes. I wanted you to have that in the record.

A I appreciate that, Mr. Waters.

Q Of course, the law doesn't make any distinction as to the amount of profit that might be realized.

A Could you tell me what the law is; seriously, where does it -- the percentage start and stop? I mean, is it a substantial, which would be unknown, or is it a one-seventh figure? I just want it for information now. I did not think we had any problem at the time and still don't.

THE CHAIRMAN: Senator Fisher.

SENATOR FISHER: The answer to your question is contained in the first page under contracting, wherein Government Codes are set forth prohibiting having an interest in contracts, and section 1091 provides that an officer shall not be deemed to have an interest in a contract entered into by any body or a board of which he is a member, and so forth, within the meaning of the article.

Then, -- I am skipping -- if it is a remote interest, then, it goes on to say, "As used in this article, a remote interest means (1) the ownership of less than five percent of the shares of a corporation for profit; (2) that of a non-salaried officer of non-profit --" so on down in it.

THE WITNESS MR. MANNEN: Thank you. I don't own a

substantial interest of --

Q BY MR. WATERS: But you did own five percent of North Coast Savings?

A That is true.

Q You are an officer of North Coast Savings?

A True.

Q Were you a salaried officer of North Coast Savings?

A No, I am not.

Q But you are an officer and were an officer of a subsidiary of North Coast Investment Company?

A No, North Coast Investment Company I am an officer in.

Q What?

A Maybe I didn't follow you, Earl. Excuse me.

Q What does North Coast Investment Company -- what is its business?

A We are a holding company for a savings and loan and we also write insurance.

Q So that you were an officer of a company, owned or controlled by the North Coast Investment Company?

A Yes, Yes, both, uh-huh.

Q Mr. Mannen, you wrote a letter to the employees of the District?

A Yes, sir.

Q Relating to their relationship with the Board

of Directors?

A Right.

Q On page 29, March 6, 1959:

"To All Key Employees and Superintendants--

"Some of our new directors are a little over-zealous to do a good job and do not intend to but have caused some confusion in our ranks as some requests have been misinterpreted as orders.

"You are working for one boss only who must be responsible for final decisions. Please be courteous to all directors but do not take any suggestions seriously.

"All orders for supplies must receive approval as in the past. No plans are to be altered unless they follow the usual 'chain of command.'

"The board makes policy decisions--the manager endeavors to carry them out with your assistance.

"Thank you.

"(Signed) Paul T. Mannen
Secretary-Manager."

May I ask what prompted that letter?

A There were several of the Board members that were giving what the employees interpreted as orders to them to do certain things to them that were in conflict to the schedule I had set up to complete the grounds in proper order for the putting on of the Fair at a later date.

Q Do you feel that was a proper letter for the manager to write?

A I do. I might have chosen a few words a little differently if I had gone over it a second time; however, it -- from the rumor, it appears that such a letter should have been in order this year, not the exact words, but there appears to have been some interference again this year.

Q You mean a little more tactful?

A Yes, I think I should have been a little more tactful and said exactly the same thing.

Q What were you trying to convey, Mr. Mannen, to the employees?

A That they should not alter the plan that I had given them to do a particular job in order to do something else that was given to them by one of the directors. The Directors were a body of eight, and an individual director was not the manager.

SENATOR COLLIER: Well, Mr. Chairman, isn't it true --

THE CHAIRMAN: Senator Collier.

Q BY SENATOR COLLIER: If the Board of Directors settle on a plan of improvement, then any changes should be-- and they gave directions to the manager or to the secretary to carry it out, then any changes should be made as a Board of Directors, not these individual directors going around telling the help what to do; was that the situation?

A That's correct.

Q Why certainly, and that's proper. I don't blame you for writing the letter and telling them not to pay any attention to them.

(Applause from audience).

A It's unfortunate; it's still continuing is the rumor.

Q BY MR. WATERS: Well, Mr. Mannen, didn't the Board have certain committees to perform certain functions?

A The Board had certain committees to perform certain functions, but they also performed as a committee and as individuals. You see, I had resigned. I had been twenty years at the Fairground, and I was pretty well proud of the record. We had taken that swamp land out of Del Mar and built a project -- a plant that's worth some twelve million dollars, probably, today on a replacement, and there were a few people that probably sweat a little more than some of the others, and we were attempting to put on the last Fair. I had resigned at the close of the '58 Fair. I was begged by the Board members to stay; finally, I said, "I am quitting. I am going to leave as of November 1st." Again, they asked me to stay and that certain things would be done if I would only break someone in.

However, I continued to work, because they didn't get a replacement; they couldn't make up their mind, and I finally said in the spring well I'll -- "All right, I will

go through the Fair, but positively I am quitting as of the 31st of July." And with that situation in mind, why, when the last Fair -- some of them wanted to put some of their pet plans to -- in effect, and would change the operation, why, naturally, I put my foot down.

This problem started with that letter; however, if I had to do it over again, under the same circumstances, I would do it again and probably change only one or two words only.

Q Mr. Mannen, if the Board had committees to perform specific functions such as Buildings and Grounds Committee -- did they have such a committee?

A Yes.

Q Would it not -- and by Board action, that committee was authorized to perform certain functions, wouldn't those Board members then have a right to tell some employees of the District what to do?

A Not at all. I don't believe under Robert's Rules of Order, or any other jurisdiction that you would --

Q What's Robert's Rules of Order got to do with that?

A That's your rules that you conduct your organization under. You spoke about the Board of Directors and the committees under the Board of Directors.

Q I am not talking about what happened in the meeting. We already agree that at the meeting -- during the

Board meeting, a Board can delegate to a committee some specific assignments, do they not?

A Oh, absolutely, but carrying out those assignments, which might be in conflict with what they have given the manager would be ironed out before the employee was spoken to, Mr. Waters.

Q Mr. Mannen, on December the 13th, 1959, you were quoted in the San Diego Union as saying, "I have informed sources in Sacramento who say Earl G. Waters was sent down to Del Mar on a witch hunt. The fact that four audits have been made on the books since last July testifies to the witch hunt. The investigation was strictly a political maneuver."

Did you make that statement?

A Well, if the press reported it, I must have said something that was close to that; however, you know as long as you have been in the newspaper business that the newspaper profession will paint the picture as they desire.

Q Well, I don't know that the newspaper reporter will put in quotations anything -- any painting of any picture. I think the newspaper reporter will quote you exactly as you have said it when they place it in quotation.

A Well, I do not recall whether or not I made that statement.

THE CHAIRMAN: Mr. Mannen, I would like to ask you a question:

Q BY THE CHAIRMAN: Are you still of the same opinion?

A What?

Q That this is an examination -- the examination of the 22nd District Fair was a witch hunt and a political maneuver?

A Well, I would say that I do not feel that it was a witch hunt; however it does appear that there were forces bringing pressures to bear on possibly the committee or requests on those that made the requests to have such an examination.

It seemed a little odd that it would go along for twenty years kind of smoothly and then all of a sudden, that this would come about.

Q Well, has it occurred to you, Mr. Mannen, that the things that we have traversed here this afternoon, and the discrepancies that we have shown to exist between the management and the conforming to regulations of the Department of Finance and those things, that even if they existed for twenty years, that they shouldn't be looked into?

A No, they should be looked into regularly; that is correct.

SENATOR COLLIER: Mr. Chairman.

THE CHAIRMAN: Senator Collier.

Q BY SENATOR COLLIER: Did the Department of Finance ever make a complete and thorough audit of the management of

this Fair during the twenty years that you were manager?

A Senator Collier, I would say that the Division of Audits regularly made audits; however, I believe they were handicapped by a lack of staff and probably would not make what you would call a thorough examination.

Now, I -- not knowing what thorough is, I am having a little difficulty following.

Q When I say thorough, I mean top to bottom; you know what I mean too.

A No, there has been none, not of that nature.

Q Not of that type?

A No.

Q Then, did the Division or Department of Finance when they -- or the Division of Audits under the Department of Finance when they made a statement to you, did they call your attention to such facts as appears in this report as to one signature, lack of contracts and those things?

A No, on the contrary.

Q Lack of bids?

A On the contrary, Senator Collier, they have -- well, almost said the opposite, because over a period of years, why --

Q Well, what did they tell you after these annual audits? Did they say you were managing the place all right, or did they criticize you, or what did they do or what did

they say?

A Maybe I better read from one of them:

"Accounts and records of the association were generally maintained in accordance with the requirements of the Manual of Accounting and Procedures for Agricultural Fairs."

This is the report for January 1st, 1955, through December 31st, '55, and I would presume that --

Q In other words, the Division of Audits under the Department of Finance said that your affairs generally were in good shape then?

A Right. They did make certain suggestions every year that we received a year late, because one fair would be over before we would get the report.

Q Well, that's correct because --

A Yes.

Q But on the other hand, they had no great criticism or any specific criticism of your management of the Fair?

A No, sir.

SENATOR COLLIER: Then, Mr. Chairman, I want to get into the record that in my opinion, from what little I have heard of this, the fault lies entirely with the Department of Finance not coming in here and making a thorough and complete audit from time to time, a review of the proceedings of the Board of Directors, the management and this Fair in general. If they had done this, then all this problem

wouldn't have been here today.

I notice as to the contract of 1936 and the subsequent amendments thereto that the Directors of Finance and the Department of Finance have approved those proceedings. I don't know what you ask of local people, how they are to run State matters if the Department of Finance doesn't tell them different.

THE CHAIRMAN: Well, Senator Collier, what you say is not consistent with a witch hunt or political maneuver, is it?

SENATOR COLLIER: I don't know about witch hunting, because I don't indulge in those things.

THE CHAIRMAN: Senator Fisher.

Q BY SENATOR FISHER: I am a new member of the committee, Mr. Mannen, and have not been able to go through all of the records, but the only thing before me is a Division of Audits report of January 1st, 1959 to July 31st, 1959, which I presume was issued some months after you left the active fair management?

A That is correct.

Q But did include your last year as manager, is that not correct?

A Right.

Q And we have done some examination into the matters relating to the failure to -- on the part of the 22nd District Association, their failure to comply with

bidding statutes and getting prior approval of the Department of Finance and so forth. We have done that in some detail.

A Right.

Q Were any similar criticisms ever made in prior reports by the Department of Finance; did they ever call to your attention the fact that you were not complying in some instances with -- with the requirements set forth in this manual?

A There could have been. I don't recall of any specific at the time, right at the moment.

Q You felt yourself bound by this manual over the years, whether they called it to your attention or not?

A What?

Q You felt yourself bound by the manual and by the bidding statutes, whether they called it to your attention or not?

A I don't believe that I ever read the entire manual, so I would not know what I was bound by. Are you with me?

Q You mean over the years, you never got around to reading the chapter on contracting here?

A I probably read on the one on contracting and referred to it when necessary.

Q Well, that's the one I am asking about; you felt yourself bound by that?

A Oh, yes.

Q You did comply with it in some circumstances, so

you knew just what --

A Most circumstances, yes.

Q -- you knew just what the requirements were when you did meet them?

A Yes, most circumstances we did comply. We had, as I mentioned earlier, over six million dollars in --

Q And when -- when we are talking about the dealings with six million dollars worth of affairs in the State of California, you do think it appropriate for a committee of the Senate to examine into not only the local management, but to look into the question of why, if these things were occurring, why the Department of Finance didn't properly advise you when you were getting off the track, if you were?

A Right. I -- I was impressed with --

Q Do you think that's appropriate for us to look into?

A I was impressed with Senator Arnold's opening statement yesterday that it was for the betterment of Fairs in general and I hope this is for the betterment of Fairs in general.

Q We will get to the Department of Finance in short order.

THE CHAIRMAN: We hope so too, Mr. Mannen.

SENATOR COLLIER: There's where the problem lies, with the Department of Finance.

Q BY MR. WATERS: Mr. Mannen, the letter I handed you has been placed into the record, and that was a letter that was addressed to you in 1956 by Mr. Heinzer in which certain questions were raised in which Mr. Heinzer said he would not approve some proposed -- two proposed agreements between the District and the Operating Company. Did you receive that letter?

A Yes, I am quite sure I did.

Q Did you advise the Board of that letter?

A Yes.

Q At that time?

A Yes.

THE CHAIRMAN: Any further questions by the committee?

Thank you, Mr. Mannen.

MR. SHEETS: May I ask a question?

THE CHAIRMAN: Yes, Mr. Sheets.

Q BY MR. SHEETS: Mr. Mannen, you are familiar with the original franchise agreement, are you not?

A Yes, sir.

Q And in paragraph 1 of it, which is dated -- the agreement I am referring to is dated December 8, 1936 --

A Would you give me the page and I will stay with you, your page?

Q 17.

A Thank you.

Q It is provided for a ten year term -- you observe that, do you not?

A Yes.

Q And then, it is provided, and I am going to read this part, because this is the part that is pertinent to my question, that at the end of the ten-year term, quoting now:

" -- provided further, however, in the event the party of the first part shall at the end of said first ten year term receive a bona fide offer in writing from a person, firm or corporation for a franchise at a greater sum than herein specified, the party of the second part shall be required, in the event party of the second part desires to exercise its option for the renewal of said franchise for an additional term of ten (10) years, within thirty (30) days after notice to it in writing of such offer, to notify party of the first part that it will pay the higher rental provided and set out in such offer."

You are familiar with that provision?

A Yes, sir.

Q Now, I believe -- but you correct me if I am wrong -- that there were two, whether intended for it to be, extensions or renewals of this franchise agreement to be made subsequently; is that right?

A Yes, sir. Yes, sir.

Q One was made in about '45?

A I believe so, '43, '45, somewhere in there.

Q And another made -- and the one that's now in effect, made in 1953?

A Right.

Q And under the provisions of this Paragraph 1, it would be, before renewal, subject to obtaining bid; the District would have the right to obtain bids from others to see if it could obtain higher or better terms; is that correct?

A I would say that that is what was stated in the paragraphs you read.

Q Yes. That's what I mean, and you understood that, did you?

A Yes.

Q Now, you were the manager at the time the 1945 renewal or extension was entered into, and -- or you were employed in what capacity?

A I probably was President at that time; however, I do not --

Q Did you say President?

A Yes, or a director; I am not sure.

Q Of the Board?

A Yes.

Q And you were Manager, I suppose, in 1953?

A Yes, sir.

Q Can you tell us what effort was made to secure independent bidders for better terms than the District was receiving under this old and initial franchise agreement of December 8, 1936?

A Well, Mr. Sheets, in its wisdom, or otherwise, the Legislature did invoke in 1936, which is after the '36 original agreement, this clause in the Agricultural Code, "An agricultural association shall not lease its race track for running races of horses to any private person, firm, corporation, except to a national or international exposition, or its affiliated corporations or associations for the period of time now permitted by law for Fairs. The provisions of this subdivision shall not apply to existing leases or extensions or renewals thereof," which meant that we could have only extensions or renewals thereof, or no racing in San Diego County.

At the time of 1953, I did prepare quite a paper for the Board of Directors, and I have a copy of it with me, in which we took the consumer index and using the 1947, '49 average for one hundred, the original lease was entered into when the consumer index was 60.6, March, 1939, I believe -- '36, excuse me -- and at that time, we received twelve and a half percent of the rent plus \$100,000.

In 1943, when the next extension was made, we received \$100,000 plus \$50,000 in improvements, and they were definitely defined improvements. The price index had

moved to 74.6, which was a twenty-three percent increase over the 60.6 of 1936. Actually, what we received was a fifty percent increase, because we received \$50,000 more than we did in 1936; however, in 1953, we received five thousand -- 500,000 in improvements, plus an unheard of \$35,000 payment for maintaining the grounds. I would estimate that that is about \$700,000 over the term of the lease -- remaining days of the lease that we took advantage of the Del Mar Turf Club, because the maintenance to us at that time was running at the rate of, I believe, \$73,000 a year, so that we made an increase -- where the consumer price index merely moved up to ninety percent greater than the 60.6 of 1936, we increased seven hundred percent in a maintenance contract, plus four hundred percent in the fact that we got \$500,000 in improvements, and gentlemen, the State of California has a gold mine in their lease with the Del Mar Turf Club, and you should do everything to preserve it, because we caught them napping and we caught them napping at every turn when we came up for a new extension.

When it came up to the Boys Incorporated, there was nothing left to gain, but it was written into the agreement that we were to receive insurance; they had to maintain fire insurance, ninety percent to value, and that has cost them somewhere between twenty and forty thousand dollars; I don't know the exact figures, but it should be right in the

neighborhood of twenty thousand dollars a year to maintain that insurance, and they must rebuild the plant within one year. They are carrying use and occupancy also.

Q Just how does this bear on my question?

A I was answering your question that we could not, because of the Legislature's action.

Q Well, now, just a minute. Wait, Mr. Mannen, my question was this: You already answered part of my question, I think. I asked you what effort was made to obtain bids from other individuals, and you told me that first, nothing -- no efforts were made, because the Legislature had, in the meantime, had changed the law, and secondly, because you had a most advantageous lease and continued to obtain a even more advantageous lease; isn't that correct?

A That is correct.

Q That's my question. Now, then, can we get back again to my question.

A Well, I would say that because of the fact that the Legislature had changed it and we could only have extensions of leases, it might have been foolish to get bids on something you could not do anything about anyhow.

Q That was your reason, at any rate, for not attempting to obtain any other bids or offers for higher terms?

A No other offers were made.

Q How?

A No other offers were made.

Q Did you seek any other offers?

A I did not.

Q Did you let it be known that you were interested in obtaining other offers for the purpose of measuring what should be paid by the present tenant?

A I would say not, but it was generally known that it was under discussion. It was in the minutes.

Q Well, where was it? How did it get generally disseminated that you were interested in terms from other bidders for the purpose of determining the extent to which the present terms were fair?

A Well, the Board of Directors, the entire Board of Directors knew that, Mr. Sheets.

Q Well, did any other people interested in racing know that?

A Well, I would say that from time to time that people in racing had they been -- say they thought they had a chance, that they would have done more than say, "Paul, if anything happens up there, we would like to make a bid on it." I have never heard anything other than such a suggestion.

Q Well, at any rate, there was no publication of any notice to that effect, was there?

A No notice, no.

Q And have you now stated also the reason why in each successive extension or renewal, the provision for

taking bids from others interested as tenants has been eliminated?

A No, there has only been two extensions granted.

Q And have they been eliminated or do you still follow -- did you follow them in either one?

A We did not ask for bids?

Q That's what I mean.

A Yes, because we could not accept any other bid. The only thing that we could do is decide whether we would have no racing by attempting to give somebody else the bid, or have an extension or renewal of the lease.

Q Under this provision, you couldn't even -- if the Legislature hadn't acted -- unless Del Mar failed to meet those terms, isn't that right?

A I am not with you, Mr. Sheets.

Q If Del Mar, Inc., didn't meet the terms of the highest bidder, even with this provision, you still had to give it to Del Mar, didn't you?

A I would say that had there been any quotations given, that that would have been correct.

Q Yes, but there was no --

A How could you have a bona fide offer when the one making the offer knows very well and good that they cannot obtain the lease. I would be glad to offer you -- I would be glad to offer you a million dollars for something if I knew you couldn't sell it to me.

Q Well, was it your understanding that you couldn't obtain a bona fide offer?

A I would say you could obtain a bona fide offer, but the bona fide offer would have no bearing and effect.

MR. SHEETS: I have nothing further.

SENATOR COLLIER: Mr. Chairman.

SENATOR FISHER: I am inclined to agree.

SENATOR COLLIER: Let's get this settled. What did the Legislature do, did the Legislature come along after 1936 and pass legislation that would prohibit you making a new contract with anyone for a new fair?

I mean, for racing on this District Fairgrounds.

THE WITNESS: At any fair.

Q BY SENATOR COLLIER: At any Fair? All right. Now, -- but they did make the exception that any contract that was in existence could be extended?

A Or renewed.

Q Or renewed, and therefore, if you had advertised through publication or otherwise, asking them, and they came in and asked -- offered you ten times what the other people offered, you couldn't have accepted it, because the moment you would have accepted it, you would have lost horse racing at this Fair entirely; is that correct?

A That's right. It means quite a bit to our economy.

SENATOR FISHER: Mr. Chairman, may I point out--

THE CHAIRMAN: Senator Fisher.

SENATOR FISHER: -- that this is kind of argumentative simply because normal conditions for arriving at a fair market price aren't here existent, because we could not have a buyer, so to speak, ready and able to take, because the law did not permit the ability, no matter whether or not they were willing -- ready and willing. I don't think the witness needs be examined on this matter at all, because he could give us no more opinion than this unknown bidder could have.

SENATOR COLLIER: Anyway, Senator, you admit they had to extend or renew the contract?

SENATOR FISHER: I am suggesting that this line of inquiry can't develop anything.

THE CHAIRMAN: Well, Senator Fisher, the only possible way that any change could be made would be again to go back to the Legislature.

SENATOR COLLIER: That's right.

THE CHAIRMAN: Any further questions of Mr. Mannen?

THE WITNESS MR. MANNEN: Thank you, gentlemen. I appreciate the opportunity of appearing before you. I am still quite proud of the record of the San Diego County Fair.

MR. WATERS: Mr. Rowan.

Is there somebody with you?

MR. ROWAN: Mr. Duffy.

LEWIS ROWAN and ROBERT F. DUFFY,
called as witnesses jointly, having been first duly sworn,
were examined and testified as follows:

EXAMINATION

BY MR. WATERS:

Q Would you please state your name and who you represent?

A My name is Lewis Rowan and I am here in my capacity as President of the California Thoroughbred Breeders Association.

Q And Mr. Duffy?

A Robert F. Duffy, here as representative of Faesig-Tipton Company of California, Incorporated, in the position of sales manager.

Q Mr. Rowan, your association conducts an annual yearling sale at the Del Mar race track?

A BY MR. ROWAN: That is correct.

Q For how many years have you done that, Mr. Rowan?

A Since 1954, I believe; '55, '54.

Q Is that during the race meet at Del Mar?

A Yes, sir.

Q On what days during the race meet of the week would that occur?

A If we have a two-day sale, it is usually on a

Monday night and a Tuesday night. If it is a one-day sale, it would just be on one night.

Q And what -- what is the total amount of money involved in this sale?

A It depends on the number of -- I have the exact figures here, Mr. Waters, a breakdown of the figures, but the total amount of money usually depends on the number of yearlings we sell, and they average -- the average for the sale; that means the amount of money per yearling is usually between five and six thousand dollars.

Q Between how much, sir?

A Five and six thousand per yearling average.

Q Five and six thousand?

A Per yearling.

Q Five and six thousand?

A Dollars per yearling, and it depends on how many yearlings; I have the exact breakdown here.

Q What was it last year?

A In 1959 --

A BY MR. DUFFY: I believe if you use my figures, you will have -- it will give you a better picture.

THE WITNESS ROWAN: It's approximately \$500,000.

THE WITNESS MR. DUFFY: \$613,000.

THE WITNESS MR. ROWAN: It's a hundred yearlings. It was \$613,000 last year.

THE WITNESS MR. DUFFY: Gross.

THE WITNESS MR. ROWAN: Gross sales.

Q BY MR. WATERS: From the map that I have handed you, Mr. Rowan, could you tell the committee what facilities you use in connection with this sale?

A I can -- hope I can read this map, but in general, the yearlings last year were in the picnic area where we erected temporary stabling and in the various areas adjacent to Bing Crosby Hall, wherever suitable. It's pretty hard for me to pick them out on this map. I mean, to describe them exactly.

Q The picnic area would be that area bounded by the fire station, the administrative building of the 22nd District and the floral exhibit?

A That's approximately, yes, that's just right, exactly right, and then we had them scattered wherever there was room in that general area.

Q And you used Bing Crosby Hall?

A Yes, for the sales themselves.

Q Do you pay someone for the privilege of using those facilities?

A Well, we have a tremendous amount of expense which I also have here broken down and we do pay some amount to the San Diego District Fair for labor and for sales -- it's under this item as labor, sales clean-up, rental of drapes, and the amount I see is \$838.92. This was --

Q That was for last year?

A No, this was for '54, and then I see each year there is an item for rent and expenses. This -- in '55, I see \$510.20, and '56, two items, \$668.60 labor and taxes that month and rent, \$200.

Q Rent was \$200?

A Right.

Q Well, what were those -- I didn't understand you.

A Well, I am just reading from our statement and it says 22nd District Agricultural Society, Labor and taxes thereon, and the item is \$668.80.

Q Oh, the taxes were the withholding taxes?

A Probably.

Q You paid that to the District?

A Yes.

Q Now, have you the figures there for 1959?

A Yes, I am sure. '59, 22nd Agricultural Association rent, \$300 and sales clean-up, forty-eight dollars, a total of \$348.

Q That you paid to the District in 1959?

A Right.

Q Does your statement there show any payments to the Operating Company, Del Mar Turf Club?

A Not that I can see. Oh, yes, Del Mar Turf Club, labor, I see, \$230.21.

A BY MR. DUFFY: May I explain that?

A BY MR. ROWAN: Mr. Duffy was in charge of these

payments and may be able to explain that.

THE CHAIRMAN: Mr. Duffy.

THE WITNESS MR. DUFFY: Gentlemen, that payment was not made to the Operating Company. It was on a billhead of the Operating Company, Del Mar, but was paid directly to the supervisor of the labor that was performed.

Q BY MR. WATERS: Who was that, Mr. Duffy?

A In just a moment I will give you his name.
Shall I use the microphone?

Q Yes, sir.

A The figure given to you by Mr. Rowan was an aggregate figure, which was paid directly to the individual workmen who performed the service. They were under the supervision of a Robert B. Hunt, who is an employee of the Operating Company. This is a direct transaction between the employees and the payment received through Faesig-Tipton.

SENATOR FISHER: Let me ask a question.

THE CHAIRMAN: Senator Fisher.

Q BY SENATOR FISHER: I think probably what we are wanting to get at here is a question of whether or not you paid any rent or other fee for use of the premises, or any commission on the sale of these yearlings in any of these recent years, other than the two hundred dollar and three hundred dollar rental payment you have already testified to.

A BY MR. ROWAN: To whom?

Q To Operating Company or Boys Incorporated of America, or anybody else?

A No, we don't pay anything, Senator. We hold these sales -- we have held these sales at Santa Anita, Hollywood Park and at other Fairs, and we never -- none of the race tracks have ever charged us anything. We pay for clean-up, believing, I think, we -- that we perform a service to agriculture in compliance with the Business and Professions Code, which states that we should promote agriculture in the breeding of horses and what we do down here is we -- after trying our sales at Del Mar -- at Hollywood Park and Santa Anita unsuccessfully, we -- we decided that Del Mar would be a better locale, we could get our hands on the buyer's better; it's a smaller community and it's a more attractive surrounding, and when we moved down here, we moved our average up from quite a low figure to the figures you have just heard, and this was in 1954.

We moved down here. We asked Del Mar if they would like to have us, the race track at Del Mar, and they said yes, and that's about as much as I know about how the original transaction took place. We were very dissatisfied with what we were doing up in the north.

Q And what was your gross sales in the last year or so, just roughly?

A About -- the best we were doing was about \$2,200, and the same horses brought a good deal more down here,

although our profit to our association was probably greater up there, because our expenses are so high down here. Our expenses are fantastically high down here, as you will see.

Q I think you indicated that your total sales amounted to about \$613,000, was it?

A BY MR. DUFFY: That was the gross value of the sales last year.

Q What was the gross value of the sales last time in Santa Anita?

A BY MR. ROWAN: Probably two to three hundred thousand, somewhere around there, but no expense.

Q You paid no rent either place, but you do pay expense and a rental payment of two to three hundred dollars down here?

A Right. Now, the difference between putting on a sale at Del Mar, or putting one on at Santa Anita or Hollywood Park is everything is available there, the stables are available. Here, we have to build our own stalls, put them up and take them down, and if you read the breakdown, when the smoke all clears, although a lot of money goes to the breeders or farmers, none -- very little -- sometimes we lose money -- goes to the CTBA and Faesig-Tipton.

Q Do you have any contractual arrangement by way of written document with either the Del Mar Turf Club Operating Company or with the District?

A None whatsoever.

Q Or is this just a verbal agreement?

A Right, right.

SENATOR FISHER: I have no further questions.

THE CHAIRMAN: Mr. Waters.

Q BY MR. WATERS: Mr. Rowan, are you speaking now both for the Thoroughbred Breeders Association and for the Faesig-Tipton Company?

A I would say yes, Mr. Waters, because we, the CTBA, the Thoroughbred Breeders Association, hire Faesig-Tipton as our sales agency.

In previous years, prior to 1954, we put on the sales ourselves and found that it took too much of our time and too much of the -- too much effort and we weren't doing a completely professional job, so we -- our Directors thought it would be well to pull in what we thought was the best agency, who have these facilities, who have access to auctioneers and to announcers, and who know how to put out catalogs; that's their business and we have a working arrangement with them whereby they agree to put on our sales; we do part of the work and they do part of the work and at the end of each sale, we submit a statement to each other and work things out that way. It's a loose letter of agreement between the two.

Q Now, is it your statement that neither of you, or your organizations paid any moneys for any purposes to Operating Company, Del Mar Turf Club, or Boys Incorporated, in connection with these sales in 1959?

A That's --

SENATOR FISHER: Other than the matters he just testified to.

THE WITNESS MR. ROWAN: Correct, insofar as I know, nothing appears on our statements other than for -- to repay them for labor, or some such thing as that, which I don't have the details of, but we don't pay them any rental or any share of the profits or anything of that kind.

Q BY MR. WATERS: Mr. Duffy, do you concur?

A BY MR. DUFFY: Exactly as Mr. Rowan stated.

Q There was no money paid to the Del Mar Turf Club Operating Company or Boys Incorporated for the stalls or any construction of stalls, or whatever you might call them, in the area in which you kept the horses, or any construction near Bing Crosby Hall in connection with the sale?

A Nothing whatsoever, Mr. Waters.

Q Did you, in fact, have stalls in this area for the horses?

A BY MR. ROWAN: Mr. Waters, we own stalls; they belong to us. We built them and we store them and each year, we put them up -- we contract to have -- or Mr. Duffy arranges to have them put up by employing labor from whatever source available, I think, and then we take them down after the sale and store them for a year and put them up again each year. It's an annual event. They are just

used -- they are not race track stalls. They are our own stalls, just used for the sales of yearlings.

Q And you pay the laborers individually and directly for setting it up and taking it down?

A Mr. Duffy can answer that.

A MR. DUFFY: No, that one account that we had reference to, paid to the Operating Company, was a District charge for the clean-up involved in Crosby Hall after the conduct of the Monday and Tuesday night sales.

Q And how much was that?

A Lou, can we find that figure again?

Yes, I have it here, \$235.21 clean-up of Crosby Hall.

Q Is this the same -- did this same situation prevail in the previous years?

A BY MR. ROWAN: As far as I know, yes. We were dealing with whatever labor forces were available. Usually, it's a hurry-up job, and we leave it to the discretion of our man, whoever is in charge of that particular operation to use the best labor force available to get the stalls up and get them down.

Q Did you pay any officers or employees of the Operating Company or Boys Incorporated for anything in connection with these sales?

A The only officers that I see -- we have always employed Eddie Read for publicity of the firm of Dauchy &

Read for years, and there is a charge on our -- on our statement for advertising, and we employ them for all of our sales, including this one.

Q Douchy and Read, \$2,152.16?

A Right.

Q Also Eddie Read, \$500.00?

A I don't see that, but I am sure it's there.

Q It's just a few lines below, under publicity.

A BY MR. DUFFY: This is in addition to his -- to the placed advertising for his handling of the publicity in racing journals and papers. He also serves at the sale time.

MR. WATERS: I have no further questions.

THE CHAIRMAN: Any questions by the Committee?

Thank you, gentlemen.

MR. WATERS: Mr. Jenuine.

Mr. Rowan, you submitted this report for the record?

THE WITNESS MR. ROWAN: Yes, sir, if you want it.

PRESTON H. JENUINE,

called as a witness, having been first duly sworn, was examined and testified as follows:

EXAMINATION

BY MR. WATERS:

Q Would you please state your name and whom you represent?

A Preston H. Jenuine, J-e-n-u-i-n-e.

Q Representing the Western Harness Association?

A That's correct.

Q In what capacity?

A Vice-President and general manager.

Q In connection with the activities of your association, you conduct winter training sessions at Del Mar?

A I do. I do.

Q Since -- when did this arrangement start?

A This arrangement started in the fall of 1947.

Q 1947?

A Yes, sir.

Q And with whom did you enter into agreement for that purpose?

A 22nd District.

Q Then, was there a change in the parties subsequent to that time?

A There was.

Q And when did that change occur?

A The fall of 1953.

Q And then you then entered into an agreement with the Operating Company of Del Mar Turf Club?

A We did.

Q For what period of time?

A Three years.

Q And that was renewed for another three years?

A It was.

Q And has now expired?

A It has.

Q How much did you pay the Operating Company last year for the use of the plant at Del Mar?

SENATOR FISHER: Mr. Chairman. I would suggest we maybe show the witness the contract that is already submitted here, and ask him if it's any different from the one that's here.

MR. WATERS: Let him answer this question.

THE WITNESS MR. JENUINE: Last year, we paid the Del Mar Turf Club a total of \$21,543.

Q BY MR. WATERS: Mr. Jenuine, I show you this document that's been submitted for the record, and ask you to identify it and tell us whether it is the document/ⁱⁿwhich you entered into an agreement with the Del Mar Turf Club?

A It is.

Q You have a statement which covers the financial transactions between your association and the Operating Company, Del Mar Turf Club for the years 1954 -- was that right?

A Yes.

Q Through 1959?

A I have those figures.

Q Would you please submit that to the committee?

A The fall winter --

Q You don't need to read it if you will submit it as an exhibit.

A Oh, you want me to leave it?

THE CHAIRMAN: The committee will accept the statement.

Q BY MR. WATERS: That's the only one?

A We have it broken down in monthly payments, but I don't think you are interested.

We use all the necessary facilities in the barn area, the track, office -- I suppose you would say all the space necessary for the -- north of the Avenue of Flags, if that is the name it's called.

Q There's a map in front of you, Mr. Jenuine; could you tell us of any exceptions to facilities that you use in the area north of the Avenue of Flags?

A There are several barns that we do not use. We use just the ones necessary.

Q You use the track and most of the -- most of the facilities north of the Avenue of Flags?

A That's right.

Q And you are desirous of continuing to use the facilities for Western -- for the Western Harness Association for the winter training ?

A Yes, we are.

Q Have you had some discussions with the Board of Directors of the 22nd District concerning that?

A Yes, I have.

Q Have they indicated a willingness to you on their part for you to use the facilities?

A They have.

Q Do you feel that you will be able to work out an arrangement with them?

A I feel that we will. Most of the points of the agreement have been approved by both sides. It is now waiting the approval of our attorneys, I suppose the attorneys of the District, plus the fact of who is going to take care of the track and the barn area.

Q Under that arrangement, do you know, or who has been proposed under that arrangement to do the maintenance work in connection with the track?

A The District has agreed to; however, at the present time, we are discussing the fact between the three parties, the District, the Del Mar Turf Club and ourselves.

Q Has the Del Mar Turf Club indicated a willingness to provide the maintenance of the track during the Harness Association stay?

A They have, to a certain extent.

Q Would you care to -- would you want to explain what you mean by that?

A No, there isn't any secret. They are willing to

maintain the track, but they want to sit down and find out who is going to maintain the barn area, who is going to dispose of the trash, manure and straw and all the other things that go with it. I don't think we are very far apart.

MR. WATERS: I have no further questions of Mr. Jemine.

THE CHAIRMAN: Questions by the Committee?

Senator Fisher.

Q BY SENATOR FISHER: All the parties to this prospective arrangement, as far as you know, are negotiating in good faith?

A They are.

Q In the past, you have looked to Del Mar Turf Club or the Operating Company as your landlord, have you, under the terms of this agreement?

A I don't know whether you call it landlord or not; it's just a case of them providing facilities. We do have an agreement also with the District in regard to using the Bing Crosby Hall on certain nights for the caretakers.

Q Do you pay anything to the District for either the use of Bing Crosby Hall or any of the other property of the District lying north of the --

A Yes, we pay the District for the use of the Bing Crosby Hall.

Q Do you pay the District anything for the use of the area north of the Avenue of Flags?

A No, we don't.

Q Has it ever been suggested to you by anybody that payments be held up to the District for that which it was to receive to help some other party negotiate this situation?

A No, sir.

Q You have always paid the District on time when it was due?

A Yes.

SENATOR FISHER: No further questions.

THE WITNESS: We are billed monthly and we pay our bills monthly when submitted.

THE CHAIRMAN: Further questions?

Thank you very much, Mr. Jenuine.

Mr. Stark here; Mr. Charles Stark.

Mr. John Traylor?

Mr. Sheedy here?

Mr. Allen Ross.

ALLEN ROSS,

called as a witness having been first duly sworn, was examined and testified as follows:

EXAMINATION

BY MR. WATERS:

Q State your name and address, please, Mr. Ross.

A My name is Allen Ross. My address is 123 Oceana

Avenue, Santa Barbara.

Q Your occupation?

A Occupation, Secretary-Manager, 19th District Agricultural Association and manager of horse shows.

Q Anything else?

A That's my active occupation at the present time.

Q How do you spell your name, Mr. Ross?

A A-l-l-e-n R-o-s-s.

Q Is that your true name?

A My true name since about 1931, I believe, or '30. Prior to that, I had a name that I used in show business.

Q As Manager of the 19th District, do you manage the horse show?

A Yes, sir.

Q Do you manage other horse shows?

A Yes, sir.

Q Do you have a list of the other horse shows which you manage?

A I was asked at your request, Mr. Waters, to make up a list of other shows managed of District or County Fairs; is that correct?

Q Yes. Mr. Ross is submitting a list of the District or County Fair horse shows which he manages, and I ask that it be received as an exhibit.

THE CHAIRMAN: It shall be received as an exhibit for the committee records.

Q BY MR. WATERS: I would ask you, Mr. Ross, if this is a complete list of all District and County Fair shows which you have acted as manager during the year 1959 or '60?

A Yes, sir. That is correct.

Q Do you also manage some private horse shows?

A Yes, sir, I do.

Q Would you please tell us the ones which you manage?

A I manage the Flintridge-La Canada Guild Horse Show, the Canyon Riders Horse Show and the Menlo Circus Horse Show.

Q And that's all?

A That's all I can remember.

Q How many days does the Flintridge-LaCanada Horse Show last?

A Three days.

Q And the Canyon Riders?

A Three days.

Q The Menlo Circus Horse Show?

A One day.

Q Are you also engaged in private business?

A I was up to -- I still have an interest; I am not engaged in it actively, but I have an interest in a business, President of Allen Ross, Limited, of Studio City.

Q I beg your pardon?

A President of Allen Ross, Limited, of Studio City.

SENATOR FISHER: Is that one or two concerns, Mr. Ross?

THE WITNESS: No, Studio City is the town. It's Allen Ross, Limited of Studio City.

SENATOR FISHER: It's one concern?

THE WITNESS: Yes, sir.

Q BY MR. WATERS: Is that a corporation?

A Yes, it is.

Q A California corporation?

A Yes, sir.

Q Who is the majority stockholder?

A My wife and myself.

Q Any other private business?

A No, sir.

Q What is the Studio City Ribbon and Trophy Company?

A Well, that's a name we use, but all the sales and expenditures and income all go through the one corporation Allen Ross, Limited.

Q Studio City Ribbon and Trophy Company is a fictitious name of Allen Ross, Limited?

A Yes, sir.

Q Is it registered as such?

A I couldn't tell you that. I wouldn't know unless I looked up the records.

SENATOR FISHER: Mr. Chairman.

THE CHAIRMAN: Senator Fisher.

Q BY SENATOR FISHER: Does Allen Ross, Limited, use any other name or style for a tradename?

A No, sir.

Q Just these two?

A Yes, sir. Yes, sir.

Q Allen Ross, Limited, and Studio City Ribbon and Trophy?

A Yes, sir. Yes, sir.

Q Has it ever used any other name?

A No. Prior -- sometime ago, I had a corporation -- I used to be connected with publishing a small horse magazine, which was called Tanbark and Turf Corporation, and it's been several years.

MR. WATERS: That's all, Mr. Ross. Thank you.

Q BY MR. WATERS: As horse show manager, do you solicit the sale of riding habits and ribbons of the exhibitors?

SENATOR COLLIER: Mr. Chairman, I would like to bring up a point of order. The point of order: A question by a member of the committee was unanswered and the staff cut off the answer. I raise the point of order.

MR. WATERS: He did answer the committee's question.

THE CHAIRMAN: Did you get your answer, Senator Fisher?

SENATOR FISHER: I guess, under the circumstances.

THE CHAIRMAN: Proceed, Mr. Waters.

Q BY MR. WATERS: I will repeat my question: As

horse show manager, do you solicit the sale of riding habits and trappings of the exhibitors?

A No, sir.

Q At horse shows which you manage?

A No, sir.

Q At no time?

A At no time whatsoever, sir.

Q I would like to repeat that question:

I would ask you, Mr. Ross, of on any occasions during the conduct of horse shows in which you were engaged to be manager at any District or any County Fair, did you solicit any of the exhibitors for the sale of riding habits and/or trappings or other supplies in connection with horse shows?

A What do you mean by other supplies, Mr. Waters and another thing, first, you asked me whether there was trappings and the clothing. Now, you are bring in other supplies. What do you mean by "other supplies"?

Q Mr. Ross, may I state the question this way:

As Allen Ross, Limited, you operate a store, which you call Studio City Ribbon and Trophy Company; is that correct?

A Yes, sir. Yes, sir.

Q On behalf of Studio City Ribbon and Trophy Company, or on behalf of Allen Ross, Limited, Riding and Sport Shop, did you, as manager of any horse show, District or

County, in which you were under contract, solicit the exhibitors to buy saddlery accessories, play clothes, riding apparel, trophies and ribbons from you?

A Are you asking me whether I did it personally, sir?

Q Yes, sir, I am asking you whether you did it?

A No, sir, never solicited personally.

Q Did you have any agent solicit for you?

A No, sir.

Q Did you solicit the sale of ribbons and trophies at the horse shows you managed?

A Yes, sir.

Q Have you sold any to Santa Barbara?

A Yes, sir.

Q Have you sold any to Santa Barbara since you have been manager?

A No, sir.

Q But you did sell when you were the horse show manager?

A Yes, sir.

Q And in those sales, were there any other bids or any -- were there any other bids received by the District?

A I presume there were. I couldn't answer that, because I was the horse show manager and not the secretary-manager at that time.

Q In connection with a sale that you made to the

22d District for the 1959 Horse Show of approximately five thousand dollars worth of ribbons and trophies, were there any other bids?

A Not to my knowledge, no, sir.

Q You sold the ribbons and trophies to the District in 1959?

A Yes, sir.

Q Under the name of Studio City Ribbon and Trophy Company?

A Studio City Trophy and Ribbon Company, yes, sir.

Q And what mark-up did you apply to the merchandise you sold?

A Well, there are a number of invoices; there were five invoices totalling not only for trophies and ribbons but also for ribbons for the Dairy Department of the Fair, and on the selling price -- we will take for example on trophies -- there was a forty-three percent on the selling price of mark-up.

On ribbons, we had a thirty percent mark-up on the selling price. On medals, sold to the District, we had a nineteen percent selling price. I believe that -- that's it.

THE CHAIRMAN: Our time has run out for the use of all this.

THE WITNESS: I might add that I haven't been paid for those trophies. The bill is over a year old.

THE CHAIRMAN: I will ask you, Mr. Ross, to return tomorrow morning at 9:30.

THE WITNESS: Yes, sir.

THE CHAIRMAN: And the committee will be recessed until that time.

(Whereupon a recess was taken until Wednesday, May 18, 1960, at 9:30 a.m.)

SAN DIEGO, CALIFORNIA, WEDNESDAY, MAY 18, 1960, 9:30 A.M.

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(THIRD DAY)

THE CHAIRMAN: Mr. Allen Ross.

Mr. Waters.

ALLEN ROSS,

the witness under examination at the time of the recess,
having been previously duly sworn, resumed and testified
further as follows:

MR. WATERS: Would the gentleman with you identify
himself, please?

MR. GOLDEN: I am Thomas P. Golden, 924 San Diego
Trust and Savings Building, Attorney.

MR. WATERS: You are an attorney?

MR. GOLDEN: That's what I said.

EXAMINATION (RESUMED)

BY MR. WATERS:

Q Mr. Ross, I would like to point out to you that
this committee is a fact-finding committee. You do not
have a right to counsel, but the committee extends that
to you as a courtesy, or anybody else that you care to
bring to assist you in your testimony.

A Thank you.

Q Yesterday, Mr. Ross, you presented the committee a list of the District and County Fairs which you managed, or which you served as manager of a horse show during 1959 or this portion of this year. You also named three private shows, which you stated you served as manager, being Flint-ridge, Canyon Riders, and Menlo Circus.

Since that time, has it occurred to you -- have any other shows occurred to you that you managed last year?

A Well, I would have to check my records. All you asked me for was bring my -- the District and County Fairs, so I didn't go through the other records, but just brought the District or County Fairs which I officiated in 1959 and 1960, up until the date you asked me.

Q Isn't there some private show in San Francisco?

A No, sir.

Q Outside of those shows in which you serve as manager, there -- are there any shows which you serve as announcer which you have not listed?

A No, sir.

Q Yesterday, when we recessed, you were about to present to the committee, were you not, some information relative to the trophy sales at the 1959 Del Mar Horse Show.

A I don't quite get the question. If you will repeat the question you had yesterday, or where you left off yesterday, -- I don't remember. I remember distinctly

you asked me what mark-up we had on the trophies and I gave the mark-up on the trophies. That's as far as we got.

Q Do you have with you your records which would reflect the cost to you of the trophies sold to the 1959 Del Mar Horse Show?

A Yes, sir.

Q You received donations from individuals for the specific purpose of providing a trophy in the name of that person for a certain class; is that correct?

A I solicited a donation from various persons and the 22nd Agricultural Association received the amount that I solicited as a donation.

Q That money was given to the 22nd District?

A It was solicited on my behalf for the 22nd District with the Horse Show Department.

Q Did you receive a twenty-five dollar donation from K. W. Patrick?

A Yes.

Q In behalf of --

A That is, the 22nd District received it.

Q Yes, that was for what purpose?

A That was a trophy to be presented in Section No. 3. K. W. Patrick also paid \$125 to sponsor the stake. They donated a total of \$150; not only \$25, but a total of \$150.

Q And what trophy did Studio City Ribbon and Trophy furnish?

A You mean you wish me to identify the type of trophy, the kind of trophy it was that was furnished it.

Q Yes, sir.

A It may be that we don't have the particular dimensions or the number of the trophy that was furnished. There was one hundred eighty-one trophies altogether.

Q Yes, sir, Mr. Ross, and there were quite a few twenty-five dollar donations for trophies?

A That's correct.

Q I am asking you what type of trophy you furnished in those situations, and specifically so that -- I thought it would be easier for you, I identified one donor.

A Well, I am pretty sure that in the stake that the sponsored, that there was a tray that they presented in that particular class, a silverplate tray.

Q And what did you charge the District for that tray?

A Fifteen dollars.

Q So that is K. W. Patrick, Mr. Patrick --

A It's Mr and Mrs. Patrick.

Q All right, what did K. W. Patrick -- the trophy that you furnished for the twenty-five dollars that K. W. Patrick donated for a trophy for a specific class was a fifteen dollar trophy?

A And in most cases, Mr. Waters, for your information, we also try to get the cost of the ribbons too, plus

the trophy. When they sponsor a stake, we try to get the \$125 for sponsoring the stake, which is the State procedure; we try to get the cost of the trophy and the ribbons.

Therefore, when Mr. and Mrs. Patrick donated twenty-five dollars for a trophy, they absorbed the cost of the ribbons also, or approximately the cost.

Q How many ribbons would have been given?

A There would have been ten ribbons given in that stake.

Q Now, what was your cost for the fifteen dollar trophy?

A Approximately seven dollars and fifty cents.

Q That's including the medallion?

A No, sir. That's just the cost right from the manufacturer that manufacturers just the plate.

Q Do you have your invoice which reflects that?

A Yes, sir.

Q Would you please submit it?

A (Submits document).

MR. WATERS: Mr. Chairman, Mr. Ross has submitted an invoice from the National Silver Company of Los Angeles which lists the charges to Allen Ross, Ltd. I ask that it be accepted and received as an exhibit.

THE CHAIRMAN: It shall be received as an exhibit.

THE WITNESS: I don't think I will be able to leave that as an exhibit. That's the only copy I have, and I don't have a copy.

THE CHAIRMAN: Could you furnish the committee with a copy?

THE WITNESS: Yes, sir, I will be glad to make a copy and see the committee gets it, yes, sir.

Q BY MR. WATERS: Now, on this invoice, the tray which you identified and said was approximately -- your cost was seven dollars and a half, it states tray, six dollars and a half?

A I can't tell you at this time specifically which tray we gave in that stake. It's impossible for me to say; that's the total trophy list that you have before you that was purchased for that purpose of all the championship stakes, the junior horse show trophies, the junior stake trophies, trophies for the leads and amateur classes.

Q It shows thirty-nine trays, six dollars and a half each. Now, it shows four trays at thirteen dollars; would it have been a thirteen dollar cost to you tray you furnished in that situation?

A No, sir.

Q It shows three trays at three dollars and a half; would it have been a three dollar and a half cost to you?

A No, sir.

Q So then it was the six dollar and a half tray?

A Well, if it was a tray that was given. I am not sure it was a tray, or a bowl. See, there are bowls at

seven fifty; there are trays at six fifty. I am not sure which trophy was given on that particular stake.

Q All right, sir. If it was a six dollar and a half tray, your mark-up would have been in excess of the hundred percent normal retail trade mark-up, would it not, if you charged the district fifteen dollars?

A If you figured each individual item that way, it would, yes, sir.

Q Mr. Ross, as manager of Santa Barbara and in connection with the horse show, do you have a stable chart for that show?

A As Manager of the horse show?

Q At Santa Barbara.

A Will you be more specific on that question? Do I have a stable chart? What do you mean do I have a stable chart as manager of the horse show?

Q Mr. Ross, you are manager of a horse show, or many of them, and you know what a stable chart is better than I do.

A I certainly do.

Q I am asking you if you have such a chart at Santa Barbara.

A Certainly, there's stable charts in every horse show. Wherever they have stabling, there's stable charts at Santa Barbara.

Q Do you have a list at Santa Barbara of persons

to send the premium books for the horse show to?

A Yes, sir.

Q Do you have a list of those persons who would sponsor stakes or donate money to the District for trophies?

A Yes, sir.

Q You managed the horse show at Imperial this past winter?

A Yes, sir.

Q Did you have a stable chart at that horse show?

A Yes, sir.

Q Did you have a mailing list for the premium books at that show?

A The District has, yes, sir.

Q You, as manager, had access to such records at Imperial?

A Certainly, yes, sir, but I didn't have anything to do with the mailing list, because everything was mailed when I got down there, so I didn't have anything to do with a mailing list, only if I wanted to refer to the list after the entries were in.

Q You didn't have anything to do with the mailing of the premium lists at Imperial?

A No, sir.

Q When you left Imperial, did you leave the stable chart there?

A Yes, sir.

Q When you were at Del Mar, did you have a stable chart for the horse show?

A Yes, sir.

Q Did you have a mailing list for the horse show?

A I didn't have a mailing list for the horse show. They had their own mailing list for the horse show.

Q Did you leave those records at Del Mar when you left there?

A Yes, sir.

THE CHAIRMAN: Senator Fisher.

Q BY SENATOR FISHER: Mr. Ross, I would like to refer back to these invoices that you submitted for perusal.

A Yes, sir.

Q You have on the front page a separate sheet, which indicates for the 22nd Agricultural District a total price of all of the -- apparently all of the trophies, the engraving the seals, the freight, a total cost of \$1,460, and a total billing to the District of \$2552, showing a net profit over the cost to you of \$1,092?

A Yes, sir.

Q Is that -- was that all the trophies sold to the 22nd Agricultural District?

A Yes, sir.

Q Would this same general pattern follow with your dealings with the other Districts that we have discussed?

A No, sir, not particularly.

Q Well, this does show a profit of seventy-five percent on costs, isn't that correct?

A Yes, sir.

Q Now, will you tell us about these ribbons; what did they cost?

A Here's the cost sheet on the ribbons. The cost price was \$1,750; charged to the 22nd District Agricultural Association, \$2,497, which shows a thirty percent mark-up on the selling price and forty-two percent on the cost. That does not only include ribbons, but it also includes labor and supplies.

Q So it includes the printing of the ribbon and everything else?

A No, sir. It -- it involved and included labor of packing the ribbons by performance, class sheets, judges cards and score sheets furnished and miscellaneous supplies.

Q What do you mean "score sheets"?

A Score sheets for the hunter, jumper, stock horse and all of the classes of the horse show.

Q Well, this wasn't intended by the donor to be part of his twenty-five dollar donation?

A No, that didn't have anything to do with the donor, sir.

Q But you got that included in this billing as well?

A Well, for the record, let's get this straight.

I didn't say we were specifically charging the donor the complete charge of the ribbons. What I did say, Senator, was we were trying to get as much of the costs as we could out of the donor, when they donated twenty-five dollars, to try to absorb as much of the cost on the ribbons as well as the trophy. This was to save money for the State and also the 22nd District to show a better profit on the horse show.

Q What did a set of ribbons cost when you were dealing in this sort of quantity?

A Set of ribbons would approximately cost about fifteen dollars.

Q Would cost you fifteen dollars?

A No, no, wouldn't cost me. I charged the District about twelve dollars and fifty cents, to be exact.

Q I am asking what your cost was for ten ribbons.

A A set of ribbons for me in that category would run about seven dollars.

Q So that the cost of the trophies ran, apparently, with the engraving and everything, somewhere in the order of seven or eight dollars, and cost of the ribbons would run about seven dollars?

A Yes, sir.

Q So that the total cost to you, ribbons and trophies, was only about fifteen dollars; is that correct?

A That's correct, sir.

Q And were there ten ribbons given each -- in each of these instances, or just in some?

A No, sir, in this particular class -- in this particular class that you are referring to where Mr. and Mrs. K. W. Patrick sponsored that class, that would have been a stake, and that would have been ten presented in that particular class.

Q How many in other classes?

A In an open class, there are only five ribbons, and in all the children or junior classes, there were ten ribbons.

Q I see. Thank you.

Q BY MR. WATERS: Did you make any sales of trophies or ribbons to Imperial when you were manager there last winter?

A No, sir, not this last show, no, sir.

Q Did you attempt to make the sale?

A Yes, sir.

Q Can you tell the committee why you did not make the sale?

A Well, I really couldn't tell you. I didn't hear from them. I didn't hear one way or the other why I didn't get it. They asked me to send my prices to them. I submitted my prices, but I was never -- a letter was never sent to me. Why I didn't get it, I couldn't answer the committee fairly.

Q For the record, the books and records of the Imperial Fair show that Mr. Ross submitted a bid on ribbons or trophies; there were six bidders. Mr. Ross was the highest of the six, exceeding the low bidder by some fifty percent.

Did you sell ribbons or trophies to the Imperial show the previous year?

A Yes, sir.

Q Were there any bids to your knowledge?

A I couldn't tell you that, sir.

I sold them ribbons; never sold them any trophies. I sold them ribbons but never any trophies.

Q As manager of the 19 -- what is it, the 19th District, is it?

A Santa Barbara, yes, sir.

Q Are you making sales to that District?

A At the present time?

Q At the present time.

A No, sir.

Q When is the next show there?

A July 8th to the 16th.

Q Did you sell the show last year?

A Yes, sir, I sold ribbons to the show last year.

Q Were there any bids?

A I was asked to bid on them. I received a bid.

Q Were there any other bids?

A That I couldn't tell you. I mean, I know now, but at that time, I didn't know. Are you asking me whether I knew at that time or now?

Q I am asking you now.

A Yes, sir, I know now there were bids, although I haven't seen them.

Q Didn't you also sell some supplies directly to that show without any bids?

A I believe I did, yes, sir, by way of an order from the secretary-manager.

Q Mr. Ross, on the fifth day of January, 1959, you contracted under the name Tanbark and Turf, Incorporated, with the 22nd District Agricultural Association?

A Yes, sir.

Q To furnish a stable manager, gateman, ring steward, ring master, and ring clerk for all horse show events. Would you tell the committee, please, who these individuals were? We will start with who was the stable manager.

Just a moment, sir.

A If I may, I have a letter here that was sent by A. E. Snider, Chief of Fairs and Expositions Division.

Q Mr. Ross, I would ask you to answer the question as to who was the stable manager?

A I was the stable manager.

Q You were?

A Yes, sir.

Q Who was the gateman?

A I was the gateman.

Q Who was the ring steward?

A Mr. Fred W. Simpson, San Diego.

Q Who was the ring clerk?

A Evelyn Bogue and myself.

Q Evelyn Bogue and yourself?

A Yes, sir.

Q On the fifth day of January, 1959, you contracted with the 22nd District Agricultural Association as Allen Ross, Ltd., --

A Yes, sir.

Q -- to furnish Allen Ross as manager and announcer for the sum of \$1,750?

A Yes, sir.

Q For the contract just referred to under Tanbark and Turf, you received \$1,000?

A Yes, sir.

Q Under the contract of Allen Ross, Ltd., you also contracted to provide your own secretarial help?

A Yes, sir.

Q Who were the persons, or person, that you provided as secretarial help?

A For two weeks, I retained Harriet Landrum and for four weeks, I retained Evelyn Bogue.

Q I thought you just furnished Evelyn Bogue as ring

clerk under the other contract?

A She was my secretarial help, clerk and secretarial help. Clerk and secretarial help, about -- about the same thing.

Q What did Kathleen Bush do?

A She worked for the District. She was there answering the telephone and selling box tickets.

Q Did she assist you as manager of the horse show?

A No, sir.

Q After Harriet Landrum -- Harriet Landrum was employed by you for two weeks?

A Two weeks, because Evelyn Bogue couldn't come in for two weeks, so I retained her for the first two weeks.

Q And after that first two weeks, did she still work for you?

A She worked for the District after that.

Q Doing what for the District?

A She was working on the horse show office.

Q Oh, she was helping you?

A Well, she was -- sure, she was helping the Horse Show Department, not me personally. She was helping the Horse Show Department, which is a division of the Southern California Exposition.

Q What did you pay Harriet Landrum for the two weeks?

A Two hundred dollars.

Q What did you pay Fred Simpson?

A Seven hundred and fifty dollars.

Q What did you pay Evelyn Bogue?

A Four hundred dollars.

Q The total under the two contracts which you received was \$2,750?

A Yes, sir.

Q For which you provided, other than yourself --

MR GOLDEN: Could we have just a minute, please?

(Discussion between the witness and his attorney Mr. Golden off the record).

Q -- Fred Simpson for seven hundred and fifty dollars and Harriet Landrum two weeks, and Evelyn Bogue, performing secretarial services and to act as ring clerk, correct?

A Yes, sir.

Q What did John Traylor do?

A Specifically, I can't tell you what John Traylor did. He worked for the 22nd District. He wasn't under my supervision. He was under the supervision of the front office, so I really couldn't tell you what actually he did.

Q Do you know him?

A Very well, sir, you bet.

Q What did John Castenado do?

A Well, the name sounds familiar, and I don't know the boys by name very well, but it sounds like one of the

fellows that worked on the ring crew with a name -- because they are all Mexican boys, and I think that was one of the boys on the ring crew.

Q Is the manager of the 19th District a full time job?

A Yes, sir.

Q You receive a full time salary for that?

A No, sir, I don't.

Q Would you explain what you mean by that; you said a full time job?

A I am employed by the 19th District Agricultural Association of Santa Barbara and I take time off with the permission of the Department of Finance and the Board of Directors of the District to do some other horse shows throughout the year.

Q So that while you are there and not taking time off, it's a full time job for which you receive a full time salary?

A Repeat that last, please.

Q So that while you are there at Santa Barbara and not taking time off, it is a full time job for which you are paid a full time salary?

A Yes, sir.

Q You still own a store in Studio City?

A Yes, sir.

Q Which is a store which sells riding apparel,

saddlery accessories, play clothes, trophies and ribbons?

A Yes, sir.

Q Right?

MR. WATERS: Senator Fisher.

Q BY SENATOR FISHER: I would like to ask you, Mr. Ross, on the -- what your duties as manager of a horse show entail; do you have the entire jurisdiction over managing the horse show for that particular fair?

A Yes, sir.

Q And are the employees of the District under your jurisdiction insofar as their dealing with the horse show?

A Not necessarily, sir.

Q If they assign a man to you to clean stables, or what have you, in the horse show, were you authorized to give him directions as to what he would do?

A No, sir. He got his directions from Mr. Mannen, who was secretary-manager of the District, and if I wanted to give any directions to anybody that was working for the District, I would have to talk to Mr. Mannen and he would give me the authority to talk to them when things would come up.

Q Well, he usually and generally gave you authority for that end of the entire show?

A After I -- I would get permission from him, yes, sir.

Q Now, I would like to know a little something about horse shows. Is there usually a stable manager as a separate position?

A Senator, may I explain what a stable manager really does? There are a number of shows that bring in a stable manager, specifically to make -- lay out the stalls. We have found out at Del Mar that when we brought in a separate stable manager to come in to set up the stables, we would have to have him come in after the entrants closed. We have such things as tailboards that gaited horses use, three, four five gaited horses; we use those.

Q I am just asking you, Mr. Ross, is it normal practice in horse shows to have somebody called stable manager; is that a well recognized position in it?

A Not necessarily, no, sir.

Q Well, you mean to tell me that people that deal with horse shows all over the country, if you told them what -- that there was a stable manager, would he know -- would they know what you were talking about?

A Yes, sir.

Q And this means what to them, to say a stable manager?

A A stable manager might mean somebody is going to take them out and show them where their stalls are.

Q And he decides where they are putting their horses?

A No, that's all laid out way before the exhibit --

Q That's his business?

A It usually is his business, yes, sir. That's his duty, to lay out the stall chart.

Q And in this case, however, you found that not necessary; you did it yourself?

A Well, to do it more efficiently, I found out that I would -- if I did it myself, I would be more efficient and a smoother running show.

Q Well, if a person had only a passing knowledge about the management of horse shows specifically, and he saw a contract which said something about furnishing a stable manager, it's conceivable that he would think of that as one person; is that not right?

A Well, I didn't interpret it that way. I interpreted it to supply a stable manager.

Q Obviously, you are interpreting all these people to mean yourself.

MR. GOLDEN: Just a minute. Mr. Chairman, may I rise to a point of order? I am wondering if this committee can't permit the witness to finish his answer and to explain the answer. A lot of these things in the cold record don't make sense.

THE CHAIRMAN: We will decide what procedure we take here as a committee, sir.

MR. GOLDEN: I am asking the committee to permit the witness to answer the full question.

THE CHAIRMAN: All right. You have addressed the question, and now we will proceed.

SENATOR FISHER: Is there a pending question?

MR. GOLDEN: We didn't consider this a kangaroo court when we were called as a witness.

THE CHAIRMAN: You are not called as a witness.

MR. GOLDEN: I realize I am not called as a witness. I was called here to protect a witness.

I was under the understanding this was a fact-finding committee and not a criminal action.

THE CHAIRMAN: It's being conducted as that.

SENATOR FISHER: For the benefit of the witness and his attorney, I am merely trying to find out, and your answers should be addressed to this question, as to whether or not in the business of horse shows, there is usually a position of stable manager and is it generally understood by people who attend horse shows what a stable manager is and does?

I want to have you answer that question to my satisfaction as to stable manager, as to gateman, as to ring steward, as to ring master, and as to ring clerk.

THE WITNESS: All right, sir.

Stable manager primarily is to lay out the stalls on a stall chart, so when the exhibitors come in, they know which stalls to go in and which aisle they go to stable their horses. Does that answer your question on the stable manager?

Q BY SENATOR FISHER: And this is well recognized as a separate position on most horse shows?

A No, sir.

Q This doesn't have a commonly accepted meaning in the trade?

A It does. It doesn't necessarily mean they retain one.

Q I am not asking you whether they do or don't. If there is one, do they know what that is?

A Yes, sir.

Q And if they do have one, it's usually a person who does just that?

A Yes, sir.

Q All right. Now, I want to have you tell me the circumstances surrounding the gateman in the same regards.

A A gateman is one who is out in the outside paddock, calling horses to the paddock into the ring for each of their respective classes.

Q This is while the show is in fact in progress?

A Is in progress, yes, sir.

Q Now, this show progressed over a number of days, did it not?

A Yes, sir.

Q So each afternoon and each evening you had part of the entire horse show being exhibited?

A Yes, sir.

Q And were horses coming and going during that period of time, horses being brought in in the middle of the show, or were they there the full ten days?

A They usually get there and stay for the full show; usually do.

Q Some come in during the show?

A Some come in during the show, yes, sir.

Q Now, will you tell me what a ring steward is?

A A ring steward is one who fulfills his obligations -- there's two types of stewards, an American Horse Show steward and a ring steward. The steward of the show actually works for me to see that things in the ring are done properly. That's about it.

Q Is that a well recognized position?

A Yes, sir.

Q And what is a ring master?

A A ring master is actually the servant of the judge; he walks around with the judge, and when the judge orders a command of movement of the horse, he relays it to the announcer, the announcer announces it over the microphone. If the judge asks the horses to line up, the ring master puts his hands out and shows what direction to line up.

Q During that period of time, what is the gateman doing?

A Nothing.

Q During that period of time, if horses are coming into the stable area, what is the stable manager doing?

A Nothing.

Q I see, what about the ring clerk?

A The ring clerk is the person who checks the entries off as they -- those horses that are being judged in the ring; it might be a class of ten horses, and they have to check the horses off that have showed up in the ring, or twenty-five horses, whatever it may be.

Q What are some of the other big horse shows run off in this country?

A Pardon me? I didn't get that question.

Q What are some of the other big horse shows run off in this country of a comparable size as this one? I understand this one is advertised as one of the biggest horse shows in the country.

A The Santa Barbara International Show, the Grand National Horse Show in San Francisco, the California State Show in Sacramento, the Monterey County Fair Horse Show in Monterey and various other shows, but those are the shows that really would --

Q At any of those shows that you have mentioned, do they have separate persons as stable manager, gateman, ring master, ring steward, or ring clerk, or are they usually combined?

A I could only speak for the shows that I could answer for and that would be Santa Barbara and the Cow

Palace and we do not.

Q You don't know what they do at the others?

A I really couldn't tell you. They probably do. I couldn't tell you, but I could only tell you from the shows that I am familiar with and could answer fairly.

Q Now, the judges -- who hires the judges?

A Who hires the judges?

Q Yes, are they hired by anybody, or do they volunteer or what?

A In a District or County Fair, the horse show manager usually submits and recommends a list of judges for the various divisions. The Board of Directors of each District approves the judges.

Q And who were the judges in the show conducted under the two contracts you made that we are examining into?

A Who were the judges officiating in 1959 at Del Mar?

Q Yes.

A E. B. Ogan, from Lexington, Kentucky, Mr. Daniel P. Lenehan of Sewickley, Pennsylvania, and there was an F. E. Robinson from Summit, New Jersey, and one other judge -- I can't think of it now. I don't have the book.

Q These people --

A It was --

Q Were these people hired by the District, do you

know?

A Yes, sir.

Q And their expenses paid out here and back, if you know?

A No, they were hired on a flat fee, and paid their own expenses.

SENATOR FISHER: I have no further questions.

THE CHAIRMAN: Mr. Waters.

Q BY MR. WATERS: As the horse show manager, you would recommend to the Board the judges to be engaged?

A Yes, sir.

Q As the manager of the 19th District, is that the same procedure?

A Yes, sir.

Q Also at Santa Barbara there is considerable -- is there considerable interim use of the fair property by people who are engaged -- engaging the property for horse activities?

A I would say a minimum; not too much.

Q There is some use?

A Yes, there is some.

Q Such as -- would you please tell me some of the uses?

A In the horse facilities?

Q Yes, sir.

A There's the Santa Barbara Riding Club, Santa

Barbara County Riding Club that uses the facilities and the show, which calls themselves the Channel City Horse Show. The Arabian horse show is held there each year, and --

Q Do you have any connection with those shows?

A No, sir.

Q Do you sell any ribbons or trophies to those shows?

A No, sir.

Q Have you in the past?

A No, sir.

Q You do not sell any merchandise to those shows as such?

A No, sir.

Q Do you sell any merchandise to the exhibitors at those shows?

A I couldn't answer that. I wouldn't know. I don't know the customers that come in the store. I wouldn't know whether a customer bought anything from our store or someplace else. I couldn't identify the merchandise that close.

Q You stated yesterday that you do not sell merchandise to any of the exhibitors at any shows that you manage; is that correct?

A I beg your pardon, Mr. Waters. You asked me if I solicited and I told you I did not solicit it.

You didn't ask me whether I sell. I said I did not solicit it.

Q Yes, sir. I will ask you the question: Do you sell merchandise to any exhibitors at any of the shows which you manage?

A Personally, I don't sell any clothes or any equipment or any merchandise to any exhibitor, myself, personally.

Q Does your store, which you own, sell --

A They probably do.

Q Do you take orders from any of the exhibitors at any of the shows you manage?

A Are you referring to me, personally?

Q Yes, sir.

A No, sir.

Q You do not personally take orders from any exhibitors at any horse show you manage?

A No, sir.

Q Mr. Ross, I am holding here a premium list of the National Horse Show, Southern California Exposition, June 26 through July 5th, 1959.

A Yes, sir.

Q You recognize that, do you?

A Very familiar with it, yes, sir.

Q Did you prepare that premium list?

A Yes, sir.

Q Under Class No. 12--Polo Mounts, it states:
"(To be ridden with helmet and mallet)

"ATTIRE: White breeches, boots, polo cap or helmet, long sleeve cotton or wool turtle neck polo shirt with bandages to match."

Under Class No. 11--Jumpers:

"ATTIRE: All riders to wear boots and breeches or jodhpurs and shoes, coat and hat."

Under Class No. 10--Working Hunters:

"ATTIRE: All riders to wear boots, breeches, stock tie, coat and hunt cap or derby. All riders to wear hunt livery in stake."

I would ask you, Mr. Ross, if that is usual in horse shows to prescribe the attire to be worn by the entrants?

A Yes, sir, all over the world.

Q Under Section No. 30, Congress Fancy Turnout--
Exhibition:

"No Entry Fee

"Open to children 15 years of age and under.

"For show purposes, height of pony (any breed) shall not exceed 14.2 hands. Entries are to be driven by boy and accompanied by girl (15 years or under). Accepted attire shall be: Boys: strictly formal, top hat, tuxedo coat, black trousers or jodhpurs, bow tie and white shirt. Girls: strictly formal, flowers."

Where, Mr. Ross, might someone who wished to enter a youngster, a child seven or eight years old, find

such attire?

A At a tuxedo shop or someplace where they sell formal clothes.

Q Would you name some of those places for us?

A I don't know. There are thousands of tuxedo rental places that sell tuxedos. We don't handle them, never did in the store.

That's an American Horse Show Association. You have to list it in there. This show was licensed by the American Horse Show Association; therefore, we had to list the proper attire to be shown in that particular list.

Q This premium list, Fourtieth Annual Santa Barbara National Horse Show, July 10 through July 18, is that it?

A Yes, sir.

Q Is that the program for -- the premium list for your horse show, which you managed at Santa Barbara last year?

A Yes, sir.

Q Did you prepare this premium?

A Yes, sir.

Q The pages are not numbered, Mr. Ross, but about the third page, it states:

"Santa Barbara National Horse Show is classified by the American Horse Shows Association as an 'A' show in the hackney pony division, harness pony division, five-gaited division, shetland pony division,

fine harness division, three-gaited division, roadsters, conformation hunters, stock horse division, trail horse division, walking horse division. "

I ask you if that is a true and correct statement?

A I couldn't answer that now. I would have to refer to the American Horse Shows Association, after that was printed, whether they ruled it was "A" in all those divisions.

You sometimes advertise an "A" Division and if a certain class does not fill and it is cancelled out and it takes the amount of classes to be offered as an "A" show, which drops the rating down, then, the American Horse Shows Association will give the exhibitors a "B" rating.

We might advertise as an "A" show at the time of the publication, but after the entries close, if the classes do not fill, then you drop down to maybe a "B" show in some of the classifications, but at the time it was made, it might have been an "A" show.

Q Were any of those divisions in fact an "A" show classification?

A Yes, sir.

MR. WATERS: I have no further questions.

THE CHAIRMAN: Questions by the Committee?

Thank you very much, gentlemen.

MR. GOLDEN: I wonder if I might make a statement for the record, Senator?

THE CHAIRMAN: No, I am sorry. I can't see where it's

pertinent at all.

MR. GOLDEN: Well, there are several people that have appeared here voluntarily yesterday; I don't know whether they are here today, and they might well want to testify in Mr. Ross' behalf in management of the horse show. I am only suggesting that this committee call some of these witnesses.

MR. WATERS: You should have addressed a request to the chairman long ago.

That's all, sir.

THE CHAIRMAN: We don't want to be arbitrary about the thing, but if you had taken it up with the staff in advance, we would have been glad to arrange for any witnesses to appear.

MR. GOLDEN: Thank you, Senator.

MR. WATERS: Mr. Chairman.

THE CHAIRMAN: Mr. Waters.

MR. WATERS: For the record, I would like to state at this time that in connection with Mr. Ross' activities, which he managed under contract a number of District and County Fairs, and in which he is now engaged as a full time manager of the 19th District Agricultural Association and manages horse shows, that he also sells clothing, merchandise to exhibitors at those shows, that several exhibitors have made that statement to me and in an effort to verify those statements, I obtained a report from Dun & Bradstreet,

dated March 21, 1960, on Allen Ross, Ltd., Incorporated, in which it describes the business and states, "Retails riding equipment, riding clothes and allied lines; handles men's, women's and children's riding clothes and sportswear. Also, Ross takes orders for merchandise at horse shows and rodeos he manages."

With reference to the records at the Imperial District, the manager of the Imperial District advised me that he did not have the stable chart and that he believed that Mr. Ross took the chart with him.

He stated he did not have the premium mailing list; that Mr. Ross took the mailing list with him.

Mr. Thompson, the President of the 45th District at Imperial, stated that Mr. Ross has taken the mailing list from that District regularly for several years.

I further submit in connection with Mr. Ross' activities the fact that in the premium lists, which he prepares, he prepared for Del Mar, on the inside cover is a full page advertisement of Allen Ross Ltd., Riding and Sport Shop, with a slogan "Everything for the Horse and Rider," and that the same thing is true at the Santa Barbara Horse Show in connection with the premium list, which was identified by Mr. Ross as one he prepared.

I also submit that an examination of the records of the various Fairs in which Mr. Ross has contracted to manage, that he has regularly sold its trophies or ribbons,

to those Fairs.

I would now like to call Mr. Eric Atterbury.

THE CHAIRMAN: Mr. Atterbury.

ERIC W. L. ATTERBURY,

called as a witness, having been first duly sworn, was examined and testified as follows:

EXAMINATION

BY MR. WATERS:

Q Would you please state your name and occupation?

A My name is Eric Atterbury. I am the Director of Horse Activities at the 22nd District Agricultural Association in Del Mar.

Q And as such, you manage the horse show?

A Yes, sir.

Q What experience have you had in managing horse shows, Mr. Atterbury?

A I have been the Assistant to the President and Manager of the National Horse Show, Madison Square Garden in New York. I have been the managing director of the International Horse Show in Washington D.C. I have been the Manager of the Fairfield County Hunt Club Horse Show; Manager of the Piping Rock Horse Show; Manager of the North Shore Horse Show; Manager of the Oaks Hunt Horse Show; Manager of the New York Military Academy Horse Show. I am a licensed

Senior Judge and Steward of American Horse Shows Association. I have served on the committies of that association, the Jumper committee and the Education committee.

I have been a Director of the United States Equestrian Team and a member of the eligibility and selection committee of the United States Equestrian Team.

Q And these activities extended over a period of how many years, Mr. Atterbury?

A In the field of management, over a period of roughly eleven years.

Q I would ask you, Mr. Atterbury, from your experience, is it a usual thing in horse shows to prescribe the attire for entrants?

A Not in my own experience. The American Horse Shows Association Rule Book sets forth the attire that is considered suitable, that is, with the exception of Hunter classes, where Hunt livery is distinctly prescribed. That is the only requirement that I know of.

Q Would it be a usual thing to prescribe attire in the Shetland Pony Class?

A In that particular case, yes.

Q Now, when you took over the management of the horse show at Del Mar, did you have any difficulty in planning for the show this year?

A Yes, I did, Mr. Waters.

Q What caused that difficulty?

A A lack of records as far as files necessary to the operation of a horse show of that size.

Q What records would you normally expect to find in connection with a horse show?

A A mailing list to which the premium books would be sent for prospective exhibitors, correspondence, a list of the donors to both stakes and trophy funds, a list of the names and addresses of purchasers of boxes at the show, the stable charts, other correspondence with -- in this particular case -- the Fairs and Expositions and also with exhibitors.

Q You did not find such records at Del Mar?

A Only a few very scattered letters and no mailing list at all, no stable chart, no complete list of the sponsors to trophy funds or stakes, some names, but not complete by comparison with the trophies and stakes offered in the last year program, which was the only other source of cross reference I had.

Q I show you the premium list for July 10th-July 19th, 1959 Horse Show at Santa Barbara, and direct your attention to the list of classes which are shown as "A" show. Would you tell the committee from the description in that premium list whether those divisions are "A" class, under the American Horse Show Association rules?

A I would like to explain just exactly what this means. In the first place, the American Horse Show, as an

association, requires that for a show to be classified as "A" in any division, it shall give a minimum number of classes, and also at the same time, a minimum amount of prize money. Short of checking the number of entries and the amount of prize money against this, I could not tell you offhand, but I believe that in the particular case of Conformation Hunters, it would not be an "A" show. Conformation Hunters requires six classes and \$600. I believe you have six classes and \$600, but for an "A" classification it also requires that the show shall offer a Hunter championship, and in addition, that it shall hold one class under saddle and one model class to qualify for an "A" classification, and that's not included here in the Conformation Hunter Division.

Q From your knowledge of the horse show at Del Mar last year, was that a Class "A" show?

A In a number of the divisions, but not in all of them that were advertised as "A" divisions.

Q Did you have any difficulty in preparing for this year's show in connection with the horse show arena?

A Yes, there was no arena when I arrived in California, and it is not yet completed.

Q Were there some difficulties, or are there some difficulties in connection with the construction of that arena?

A Could you rephrase the sentence? I couldn't quite

follow it. It's taken a long time to get it started, to get it completed, if you mean that, yes; there are also certain defects, I would call them, in the construction of the ring.

SENATOR FISHER: Mr. Chairman.

THE CHAIRMAN: Senator Fisher.

Q BY SENATOR FISHER: These defects you are talking about, they were called to the attention of the Department of Finance, Division of Fairs and Expositions when you -- before the ring was built?

A No, sir. I am not an engineer. I cannot read blueprints; however, as the -- as the ring has progressed, and the defects have shown up, they have been brought to the attention of both the Secretary-Manager and also of the members of the horse show -- or Horse Activities Committee and the Buildings and Grounds Committee. I myself have not seen any of the members of the Architectural Department of Fairs and Expositions, who prepared the plans.

Q All right.

Q BY MR. WATERS: Well, Mr. Atterbury, as Manager, you now know that there were some defects in the arena; one of them was in connection with a -- the bleacher section, in which a step was constructed for the full length of the grandstand area; is that correct?

A Yes, sir.

Q And that now requires the District to spend some

money to correct that defect?

A Yes, sir.

Q And another was in connection with the concrete poured, the grandstand and the rail, they don't meet, do they?

A No, there is a wooden wall, or parapet erected around the ring, and at the foot of it, inside, that is, in the area where people would sit in the boxes, there is a space of approximately nineteen inches of dirt, between the wooden paneling and the edge of the poured concrete slab.

Q I think perhaps Mr. Todd might go into this matter with the committee at a little later time and at greater length. Didn't he go to Sacramento to discuss the plans for the --

A I believe Mr. Todd went to Sacramento several times prior to the construction of this ring.

MR. WATERS: All right. Thank you, Mr. Waters.

THE CHAIRMAN: Any questions?

Thank you very much, Mr. Atterbury.

MR. WATERS: Is Mr. Sheedy here?

Is Mr. Charles Stark?

THE CHAIRMAN: I think we will declare a break for about five minutes for the reporter.

(Whereupon a short recess was taken, after which the following proceedings were had:)

CHARLEY STARK,
called as a witness, having been first duly sworn, was
examined and testified as follows:

EXAMINATION

BY MR. WATERS:

Q Please state your name and occupation.

A Charley Stark, a horseman, works with the horses.

Q Are you a trainer?

A Not a licensed trainer, no, sir.

Q You do train horses?

A I have trained and broken horses all my life.

Q Are you also employed by the Del Mar Turf Club?

A Yes, sir, I was during the summer season.

Q You are employed by them during the race meet?

A Yes, sir.

Q In what capacity?

A I run their horse plans (sic) for them.

Q Sir?

A I run their horse plans (sic) for them, and I
run the tractor for them on the renovation of the race track.

Q Have you ever stabled any horses which you are
in charge of at the Del Mar race track?

A Yes, sir.

Q When have you stabled horses there?

A This past month.

Q Sir?

A This past winter, December --

Q This past winter?

A Yes, sir, some of them, and one horse in December.

Q One horse in December?

A Yes, sir, and five -- I had five head in either February or March. I have the receipts on the stall rental for them.

Q You have the receipts with you, Mr. Stark?

A Yes, sir.

Q Would you please submit them to the committee?

A (Witness submits documents to Mr. Waters).

Q I have here on the stationery of the Del Mar Turf Club, written on it "duplicate receipt", dated May 2d, 1960, "Received of Charles Stark, ten dollars in payment of stall rental on one horse for the period November 24, 1959 to December 24, 1959. This is to supplement original handwritten receipt, given to Mr. Stark at time of payment, January 4, 1960," signed "Operating Company, Del Mar Turf Club by Thomas Howe."

I have here a receipt on the 22nd District Agricultural Association from -- "Received of Wally Stark, fifty dollars stall rental from February 19 to March 19," and it shows connected with that an invoice "Del Mar Turf Club, March 9, 1960, Charles Stark, stable charges, five head from February 12 -- stable charges from February 12, 1960 to March 12, 1960."

Other than that, other than the period November 24 to December 24, 1959, and either February 12 or February 19, whichever one of these receipts are correct, to March 12 or 19 --

A Yes, sir.

Q Did you have horses at any other time?

A During the race meet in the summer time in the past, I have; not in the winter.

Q During the race meet?

A Yes, sir.

Q For what purpose would you have horses at the track during the race meet, Mr. Stark?

A To race.

Q Sir?

A To race.

Q To race?

A Yes, sir.

Q Do you own race horses?

A I have.

Q You do own race horses?

A I do not now; I have owned race horses.

Q I see, but in no other year, did you ever stable any horses during the interim, outside of the race meet at Del Mar?

A I have not.

Q I show you a card, Mr. Stark, which says, "Horses

Swimming in the Ocean, Del Mar Race Track, Charley Stark, Barn JJ, Plateau 3-3719." I ask you to identify that card.

A That is my card.

Q When was that printed, Mr. Stark?

A I forget the date I had it printed.

Q What year?

A Oh, I believe it was in November of '59, last year.

Q Do you know Bud Landrum?

A Yes, sir.

Q Did you sell a horse to Bud Landrum?

A Yes, sir.

Q When?

A In October or November, somewhere along in there.

Q In October?

A Either October or November, approximately, a saddle horse.

Q Where was the horse at the time you sold it?

A At my house.

Q It was not stabled at the Del Mar race track?

A It was not. He taken it to Del Mar hisself.

Q It's your statement, is it, sir, that you did not stable any horses during the winter of 1958 at Del Mar race track?

A That's right.

Q During the winter of 1957?

A I did not.

Q At any period during 1957?

A No, sir.

Q You did not stable any horses there?

A No, sir.

Q It is your statement, is it, sir, that you did not at any time, other than November of 1959, December, that one month period and February-March of 1960, at no other time had you ever stabled any horses at Del Mar?

A In the summer; not in the winter. I have during the summer months during the races.

Q Excepting during the race meet?

A That's right.

Q And is it your statement that you, as a horseman, or trainer, was not in -- that you were not in charge of any horses that were stabled at the Del Mar race track at any period other than during a race meet, or the period -- the two periods for which you have handed the committee receipts?

A That is right.

MR. WATERS: No further questions.

THE CHAIRMAN: Questions by the committee?

THE WITNESS: Sir, may I have something to say?

MR. WATERS: Yes.

THE WITNESS: I was questioned by Mr. Todd, and Mr. Atterbury due to my horses down there. When they first came

up to me and they asked me if I had had any horses there in the past, I said yes. The next thing I read in the papers I had them for the last five years at Barn JJ. Barn JJ has only been constructed for only two years, and they made the statement that I had had them there in the winter time, illegally renting stalls, which I had not. I went to their office, the next morning when I read it in the paper; I talked to a Mr. McClure -- Mr. Atterbury and Mr. Todd wasn't there -- I told him the circumstances. He retracted the story in a letter; he and I both signed it. He sent it to the Turf Club and he read that letter of -- before the Board meeting at their next meeting and Mr. Roberts, as far as I know -- I don't even know him -- he still claims I had horses there in the wintertime. I have not and anyone that makes that statement is false.

SENATOR FISHER: Mr. Stark --

THE CHAIRMAN: Senator Fisher.

Q BY SENATOR FISHER: In the questioning here, we have cleared up the matter, have we?

A Yes, sir.

Q And the record now does show how many horses you had during what period of time?

A I have my records and receipts for what I have done.

Q That's the complete story, you paid according to this invoice and so forth; is that right?

A Yes, sir.

SENATOR FISHER: Okay.

THE CHAIRMAN: Thank you, Mr. Stark.

Mr. Traylor.

JOHN TRAYLOR,
called as a witness, having been first duly sworn, was
examined and testified as follows:

EXAMINATION

BY MR. WATERS:

Q Please state your name and occupation, Mr.
Traylor.

A John Traylor. I am a maintenance foreman at
the Del Mar Turf Club and Fairgrounds.

Q Repeat that, please, the last part.

A I am a maintenance foreman at the Del Mar Turf
Club and Fairgrounds.

Q And Fairgrounds? You work for both parties?

A I have, yes, sir, for seventeen years.

Q Were you employed by the 22nd District from the
period June 18th to July 11 during 1959?

A Roughly, yes.

Q For less than a month?

A No, I would say more than a month, around a month.

Q June 18 to July 11?

A I am not positive of the date.

Q During that period, you were paid in excess of \$1,000 by the District, were you not?

A That I would have to look up.

Q Well, the payrolls of the District, Mr. Traylor, show that from June 18 to June 24 that you received \$300.51; the period June 25 to July 1st, you received \$426.65; July 1st to July 8th, \$351.90. May I ask you what services you performed during that period?

A The same services I have performed for several years. I have charge of the maintenance in the parking lots, the maintenance in the stable area, which includes various duties, also the 4-H and the Future Farmer, and anything to do with livestock and the parking situation.

Q Did you also perform the services as a stable manager for the 22nd District?

A No, sir. I have years ago in the wintertime when they had the Western Harness operation.

Q In connection with the horse show?

A No, not with the horse show.

Q June 25, the books of the District show that you worked sixteen hours; on June 26, seventeen hours; June 27, sixteen hours; June 28, sixteen hours; June 29, sixteen hours; June 30, sixteen hours; July 1st, sixteen hours; July 2d, sixteen hours; July 3d, sixteen hours; July 4th, sixteen hours; July 5th, sixteen hours.

Did you work those hours, Mr. Traylor?

A I did. I was on 24-hour call; in addition to that, I never left the grounds and never charged for the time I was not working.

Q Did you sleep during that period?

A I slept what little I could, not during this period that I am billing for.

Q And as an employee of the race track, Del Mar Turf Club-Operating Company, did you ever rent the stalls to any person?

A The only time I acted in the capacity of stable manager is in the off-season or the Western Harness Winter operation, which I have done for years.

Q No. Perhaps you misunderstood my question. Did you ever rent the stables to any individual during the interim period?

A I am getting to that. At the Del Mar Turf Club, and as stable manager during the wintertime, we don't encourage outside horses other than Western Harness on the grounds. There's been a few hardship cases that we have let in, a very few.

Q Now, you say "we". Are you speaking now as an employee of the Turf Club?

A I am.

Q You are a person that determines whether or not anyone stables horses there during the interim period, outside of the race meet?

A Not without authority from the front office of the Del Mar Turf Club.

Q Do you know Charles Stark?

A I do.

Q Did you rent his stables to him?

A I did.

Q For what period, sir?

A One horse from November 24, '59 to December 24, '59. Also, let him bring in five horses in roughly the middle of February to the middle of March.

Q Did he pay rent to you?

A He paid rent to me.

Q And what did you do with the money?

A I turned it into the accounting office of the Del Mar Turf Club.

MR. WATERS: No further questions.

THE CHAIRMAN: Questions by the committee?

Thank you, Mr. Traylor. You are excused.

Is Mr. Sheedy here?

Mr. Pringle.

ROBERT J. PRINGLE,

called as a witness, was examined and testified as follows:

EXAMINATION

BY MR. WATERS:

Q Would you please state your name, sir.

A Robert J. Pringle.

Q And by profession, you are what, sir?

A Bookkeeper.

Q And as such, you were the bookkeeper for the 22nd District Agricultural Association?

A That's right.

Q From what period to what period?

A From March, 1946 to August, 1959.

Q I would like to ask you, Mr. Pringle, as bookkeeper, during that period, would there be any way now to determine the actual cost of the 22nd District Agricultural Association in connection with the management of the rental property rented to the Del Mar Turf Club and Operating Company?

A What do you mean by the cost?

Q I mean the cost that would be involved in the ownership of this rental property.

A Well, that would be pretty hard to determine. There was no segregation made for any particular costs for that particular operation.

Q Expenses that were incurred by the District were not charged to that?

A No, they were not. There was no account set up

for that particular operation.

Q I have one other question, Mr. Pringle. As Book-keeper, you were pretty much in charge of the physical records of the District, were you not?

A Yes.

Q Did you ever see a document which would have been an agreement between the 22nd District and the Works Progress Administration?

A No, I never saw it.

Q For the construction of the grandstand?

A That was before my time. I didn't go digging down in the old records to find out any old document, because I had no occasion to.

Q You would have no knowledge of where that agreement was?

A No, probably down there somewhere, but --

MR. WATERS: I have no further questions.

THE CHAIRMAN: Questions by the committee?

SENATOR FISHER: Yes, I have.

THE CHAIRMAN: Just a moment, Senator Fisher has a question.

Q BY SENATOR FISHER: Mr. Pringle, is it under your jurisdiction that checks are drawn and so forth for the payment of bills?

A Yes, sir.

Q Do you make the preliminary --

A I make up the statements, and --

Q Make up the statements --

A -- of the checks made out.

Q -- of the checks made out and so forth?

There's been some testimony in regard to a Fairs Administrative Manual, have you ever seen a book of that nature?

A Oh, yes.

Q Is one maintained in the office?

A Yes.

Q For the use of the regular Fair personnel?

A Yes.

Q And has that been the case over the years?

A Yes.

Q There was some testimony yesterday to the effect that there were no written bids on many, many of the contracts that were entered into; were you aware of that fact over the years?

A No, I didn't get the bids in. They didn't come to my office.

Q Did you have jurisdiction over preparing service contracts?

A No, I didn't prepare the service contracts.

Q You didn't examine those when you made out the checks?

A No, I only got them after they were approved and

signed and probably be sent to Sacramento, and then came back and were turned into my office.

Q Were you aware of the requirement in the Fairs Administration Manual to the effect that three or more bids were required in many instances for --

A Well, I knew the provision in the manual, yes.

Q There was some testimony yesterday that -- that was on many occasions not done before submittal to the Department of Finance for approval. Did that come to your attention; was that the case?

A It probably happened that they weren't taken. I don't know. I wasn't there all the time and a lot of the time I didn't know what was going on. I was only in, you know, maybe two days a week.

Q Now, were checks normally drawn for payment on these contracts before the contracts were approved by the Department of Finance?

A No, not that I know of.

Q Did you ever recall drawing checks for payments on contracts before approval of the Department of Finance?

A No.

Q In fact, if there were payments, at least they would come back by way of cancelled checks in your --

A I would get them, of course, because they kept a duplicate voucher of the check, so at the time they were drawn, I would know.

Q At that time, you knew that matters were paid for without approval by the Department of Finance?

A What do you mean exactly by Department of Finance approval. You mean of the service agreement?

Q Yes.

A I don't know of any service agreement where checks were drawn before the agreement had been approved.

Q You don't know of any such case?

A No.

Q You heard the testimony yesterday to the effect that in some cases they were drawn without approval.

A I didn't particularly listen in on the testimony yesterday.

Q And you didn't yourself discover it at any stage of the game?

A I didn't have any, to my knowledge.

THE CHAIRMAN: Senator Miller.

Q BY SENATOR MILLER: Who did the bank reconciliation of the checks?

A I did.

Q You did?

A Yes.

THE CHAIRMAN: Could you speak a little closer to the microphone, please?

THE WITNESS: Yes, I made the bank reconciliations.

Q BY MR. SENATOR MILLER: When you did the bank

reconciliation, did you tie in the cancelled checks by code or by number with a service agreement; in every instance or in any instance for that matter, did you do it?

A Well, the reconciliation has nothing to do with service agreements. You reconcile a bank account with your cancelled checks.

Q Yes, and then any further reconciliation of the cancelled checks with the service agreements --

A I just balanced it against the register.

Q What is that, sir?

A I just balanced the checks against our check register.

Q Against your check register?

A Yes.

Q And what is shown in your check register?

A The number of the check and to whom issued, and then the segregation as to which department it was to be charged to.

Q I see. No, there is no tie-in at that point with the --

A Usually when a check was issued against a service agreement, I would issue the -- put down on the bottom of the service agreement the number of the check, and the amount.

Q I see.

A So that we could check it back against the register

if the auditor wanted it.

SENATOR MILLER: I have no further questions.

THE CHAIRMAN: Senator Fisher.

Q BY SENATOR FISHER: When you did put that number down at the bottom of the service agreement, did it ever come to your attention that that service agreement had not been approved by the Department of Finance?

A No, because I didn't get them until they were approved.

Q I see. Have you seen the report on the examination of the financial activities for operation of the 22nd Agricultural District for the period of January 1st, 1958, to July 31, 1959?

A You mean the last one they got?

Q From the Division of Audits of the Department of Finance.

A Well, somebody showed me a copy, but I didn't go through it very thoroughly; it was just similar to previous ones, so I wasn't interested.

Q You weren't interested in this?

A No, I am not interested. I was gone from there before that came, so why should I?

Q Well, were you there at the time -- were you there at the time in question?

A I was there at the time that was --

Q Were you there January 1st, 1958?

A Yeah, but why should I go through that report after I am gone from the place, I mean.

Q Well, if you haven't gone through it, then, Mr. Pringle --

A I haven't gone through it, no.

Q All right. Now, we will have to take matters up a little more slowly. I hoped that you had read something about it.

A All right. Go ahead.

Q At page number 6 --

A Let me get my glasses. Okay, where are we at?

Q Page number 6; do you have page number 6?

A All right.

Q The last paragraph, entitled "Construction Contracts", it says, "All construction contracts entered into by the Association provided that payment would be made after satisfactory completion of the work. Instead, progress payments were made to the contractors during the course of construction. No faithful performance bonds were required, as is ordinarily done when progress payments are authorized," and then there is a list of them.

Do you recall any such payments being made?

A Well, you are talking about progress payments. You didn't ask me about --

Q Well, I am just asking about progress payments. Do you ever recall such progress payments being made?

A Yes, some of them, sir.

Q And were you aware of them at the time that they were payments on contracts, which provided for payment only after completion?

A Yes, but that wasn't my --

Q Well, and did you do that on your authority, or were you instructed to make it?

A I was instructed to issue a check.

Q And by whom?

A By the manager.

Q Who?

A Well, Mr. Mannen at the time, I suppose.

Q All right. Now, if you will, up above on that same page -- Oh, incidentally, there is a list following the end of that paragraph, showing a -- a list of contractors to whom progress payments were being made on September 20, 1957, Helman M. Smith, \$36,489.44; do you recall that?

A I don't recall any particular amount. That probably was the total amount of the contract.

Q And progress payments were made on that contract during the course --

A Probably made, yes. I don't recall the individual payments.

Q All right. Now, if you will go to the paragraph in the middle of the page on page 6, it provides as follows:

"No written bids were obtained, no purchase orders

were issued and Department of Finance approvals were not obtained on the following purchases over \$500," and there is a list of the purchases in 1958 and the early part of 1959. Were those drawn at the time that you were bookkeeper?

A Yes.

Q And were you aware at the time that those checks were drawn that there was no Department of Finance approval and that no purchase orders had been issued, and that there had been no written, or any kind of bids?

A Probably was.

Q And you would not have done that on your own authority, would you?

A No.

Q Were you instructed to draw those checks?

A Yes.

Q By whom?

A By the Manager or some one.

Q Well, who else had authority over the office?

A If I was rendered a bill or an invoice.

Q The Department of Finance didn't instruct you to pay these bills, did they?

A What I am telling you, if I got a bill came through and it was okayed by the manager or someone in authority for \$1384, I would pay it.

THE CHAIRMAN: Excuse me, Senator Fisher, by "someone in authority," -- who else was in authority?

THE WITNESS: Well, the most of this stuff was approved by the Manager.

THE CHAIRMAN: Was any of it ever approved by anyone else?

THE WITNESS: Of course, approved by the superintendant on the grounds, if he knew the work had been done; he would put his okay on it too.

Q BY SENATOR FISHER: You didn't issue the checks; you merely drew them up to have them ready for the Manager?

A Yes, and I would submit them to the Manager.

Q You didn't issue them, you merely followed a procedure after they were okayed?

A Yes.

Q Now, there is a list in the middle of page 7, wherein it says that -- as follows: "No written bids were obtained, no service agreements were prepared and Department of Finance Approvals were not obtained for services furnished by the following contractors," and there's a list of them in the years 1958 and the early part of 1959; were those checks drawn during your --

A Yes.

Q And under your jurisdiction?

A Yes.

Q And I might ask you now on the bottom of what service agreement did you put this notation as to the check number that you just testified to Senator Miller on?

A Like the ones up there at the top, Helman M. Smith, there were three or four checks issued; there would be three or four checks noted on the bottom.

Q You told Senator Miller you made a notation on the bottom of the service agreement as to the check number.

A Yes.

Q Now, there is a list in the Division of Audits report of some payments that were made in which there were no service agreements. Where did you make a notation in those instances?

A Well, if there was no service agreement, I couldn't make a notation on it.

Q Well, where did you make a notation, any place?

A Well, just on -- on the --

Q How did you know that you were to pay these; were you just given by a Manager or by somebody an invoice with an Okay on it.

A That's right. That's right, just like you would get the bills at the end of the month.

Q All right, so you didn't always ascertain whether there was a service agreement?

A No, that wasn't my --

Q Or service contract, or --

A No. That wasn't up to me to find out if there was a service agreement. These bills may have come in half a dozen invoices, totalling a certain amount.

Q Now, Mr. Pringle, this is a list of some substantial payments, some fifteen thousand dollars under purchases, some \$165,000 under construction contracts, and a total of about \$22,000 under other contractual services where there was apparent failure to follow the Administrative Manual in regard to the drawing of the checks during the period of eighteen months.

I will ask you if that same course of conduct in that same rough proportion obtained during the previous years? Was this an unusual procedure, or was this the normal way business was done there?

A No, I don't think there was anything unusual. Of course, I can't tell whether it was on a smaller scale; I have no recollection of that.

SENATOR FISHER: No further questions.

THE CHAIRMAN: Questions by the committee?

Thank you, Mr. Pringle, you may be excused.

Mr. Martino. You are a State employee, are you not, Mr. Martino?

MR. MARTINO: Yes, I am.

THE CHAIRMAN: Just take a seat.

JOSEPH H. MARTINO,

called as a witness, was examined and testified as follows:

EXAMINATION

BY MR. WATERS:

Q Please state your name and occupation, Mr. Martino.

A My name is Joseph H. Martino. I am a special agent of the Attorney General's Office, Department of Justice, State of California.

Q How long have you been so employed?

A For the past seven years.

Q Prior to that, you were a Special Agent for the FBI?

A Yes, I was.

Q For how long a period?

A Ten years.

Q Are you an attorney?

A Yes, I am.

Q In connection with your present employment, did you make an examination of the affairs of the 22nd District, including its books and records?

A Yes, I did.

Q When did you make that examination?

A During the latter part of September and October of 1959.

Q Did you file a report?

A Yes, I did, with the Attorney General.

Q Would you please briefly summarize the -- the points of that report and your findings?

A We were requested by this committee, through the Executive Secretary, to assist in an investigation of the 22nd Agricultural District. We were informed that allegations had been made of mis-use of State funds in the operation of the 22nd District Agricultural Fair.

Our primary purpose in assisting in the inquiry was to determine whether any State laws had been violated and if such violations were apparent, to determine criminal culpability.

My inquiry was restricted primarily to the past three years of operation of the 22nd District. In examining the contracts in conformance with the rules of the Department of Finance and the Government Code, we found that all contracts or expenditures in the amount of one hundred dollars or over one hundred dollars must be approved by the Department of Finance.

There had been cases where a blanket authority had been given to the Department -- to the particular facility to make contracts up to \$500 without approval. All contracts over \$500 must have the approval of the Department of Finance and all contracts and expenditures in excess of \$10,000 must be advertised for bid.

In examining the construction contracts, we noted that in numerous cases, contracts were made with the approval of the Department; however, in all instances, the contract specifically provided that payment was to be made only upon completion and approval of the work.

In many cases, we found that payments had been made during the course of construction, which amounted to progress payments.

We also found a large number of contracts in excess of \$500, which had been executed without any departmental approval. A large number of these contracts were also made without submitting to bids.

I inquired into this and was told by the present Fair Manager that the former Fair Manager had merely consulted trade books, ascertained the prices made-- quoted in the trade books, and had made the contracts without submitting to bid.

We also determined that in many cases, the contracts were advertised for bid, which were in excess of \$10,000. In such cases, the bids were rejected by the Board of Directors and new terms were issued for the making of the contract, which would make it under \$10,000.

We found many contracts, which were in the amount of \$990 and some odd cents.

Q You mean \$9,900?

A \$9,990. We also inquired into the purchases

made by the District. In many cases, we found no service contracts for services rendered, particularly in electrical contracts, and in plumbing contracts. We discovered only one contract for the furnishing of electrical services in the amount of \$15,000 -- we determined that in excess of \$15,000 had been paid to this particular contractor.

In other contracts for services, we found that no bids had been given, no amounts had been stated. We also inquired into purchases made by the 22nd District, which constituted primarily of lumber, electrical supplies and plumbing supplies.

In none of these instances did we find where any contract had been made for the purchase of these supplies. We found that they were purchased on a day by day basis, that the purchases were made by numerous individuals, who were employees of the 22nd District. There appeared to be no controls over the delivery of the material.

Some of the invoices, which reflected the delivered material, either contained no signature, or contained the signature of an employee other than one in a supervisory capacity.

The same situation existed as to lumber as existed in plumbing. We attempted to ascertain whether trade discounts had been given in the purchase of materials and supplies.

We found only one instance where trade discounts

had been given and that was in the purchase of electric bulbs. I believe the discount was approximately one percent.

SENATOR FISHER: Excuse me just a minute.

THE CHAIRMAN: Senator Fisher.

Q BY SENATOR FISHER: During what period of time were you examining into this matter?

A The period beginning 1957 and ending in the calendar year of 1959.

As I say, the only trade discounts we found were in this one particular category.

In addition to the contracts and the purchases, we also made inquiry into the relationship between the 22nd District and the Del Mar Turf Club.

We found that the association commenced in the year of 1936 with a series of agreements of which I believe this committee is aware. The basic agreement provided for the rental of racing facilities to the Del Mar Turf Club at a consideration of \$100,000 and twelve and a half percent of the Turf Club share of the pari-mutual wagering.

There was nothing in the basic agreement which provided for any other revenue to the 22nd District as to parking, admissions, concessions or other matters.

Conversely, there was one provision which expressly prohibited the District from engaging in any activity during the tenant's occupancy in which admissions were charged or

commodities were sold.

In the Franchise Extension Agreement of 1953, a provision was made whereby the Turf Club assumed the maintenance of the Del Mar Fairgrounds in that area north of the Avenue of Flags. For assuming that maintenance, the District was to pay to the Del Mar Turf Club the sum of \$35,000 annually. An additional provision in that particular agreement provided for the payment or the -- rather, for the making of certain improvements in the amount of one million dollars, one-half of which was to be borne by the Turf Club.

In examining the records relative to this maintenance, we found the District had paid to the Turf Club in the year 1957 in excess of \$70,000. In the year 1958, in excess of \$50,000, and in the year 1959, in excess of \$40,000.

An examination of the warrants payable to the Del Mar Turf Club disclosed that the maintenance payments were made in two installments, generally in July and in December of each year in the amount of \$17,500. In examining other vouchers, we found numerous charges to the District for maintenance work, carpenter work and for new rail -- one particular item of -- in 1957, was charged to the District in the amount of \$30,000 for the installation of new rail.

We also found numerous invoices from the Turf Club

to the District for carpenter labor.

THE CHAIRMAN: Senator Fisher.

Q BY SENATOR FISHER: Mr. Martino, excuse me, this payment for new rail, was that covered by a construction contract approved by the Department of Finance?

A Senator, that's the matter I inquired into. I was unable to find any approval by the Department of Finance, and due to the lack of cost accounting, I was unable to determine whether that was to be charged to the amount of \$500,000, which was to be charged to the Del Mar Turf Club as per the extension agreement of 1953.

We did notice some notations on some of those invoices, one-half charged to the District. I can only assume that it might have been the capital expenditure that was mentioned in that agreement. There was nothing at all in the records or in the contracts which disclosed any authorization for the expenditure of that money, or authorization for the payment of that money.

Q You are talking about the million dollar improvement program?

A Yes, and I am speaking specifically about the \$30,000 paid for the new rail.

Q Well, the improvement program was a capital improvement, was it not?

A Yes, I would assume so. The contracts said certain specified improvements. It was never spelled out

in the extension agreement of 1953.

Q Were there any other occasions when the District made payment to the Turf Club for its share of the million dollar improvement under the '53 agreement?

A We couldn't find that reflected in the records that were available to us.

Q As a matter of fact, the contract provided for that payment to be made by way of withholding rental, did it not?

A Apparently that was the situation; as I say, we could find nothing which specifically allocated any particular fund to this capital improvement program.

Q You found no other payments other than this \$30,000 that looked like it might be attributable to the capital improvement fund?

A Yes, that is correct, substantially. We --

Q All right.

A We inquired of the manager, the present manager, as to the reason for the carpenter labor charges. We were informed by him that inasmuch as the State was unable to pay fringe benefits to carpenters, a verbal agreement had been made between the District through the Board of Directors or the Manager and the Del Mar Turf Club whereby the Del Mar Turf Club would engage the carpenter labor, pay for that labor and in turn, billed the District for the charges.

Now, we also inquired additionally into special

purchases made by the District. We found one purchase in the amount of \$35,000 for the Sheedy Indian Relic Collection. The available records merely disclosed that the Department of Finance had been consulted relative to this purchase, and that Finance had requested that an appraisal be made.

We found no authorization by the Department of Finance to make this purchase. The purchase was, however, made by the District, the sum of \$35,000 expended and the collection received.

Q Was that covered by a contract of any sort?

A We could find no contract other than an exchange of letters between Sheedy and --

Q None of the forms required by the Administrative Manual were used for this purchase?

A I found no standard contract for that purchase.

Q And with whom was the contract made, do you recall?

A I believe the contract was initiated with John Sheedy and was made by the then manager, Paul Mannen.

Q I noticed on page 6 of the Division of Audits a number of payments, May 16, June 10th, July 5th, the first three in '58 and the last one in '59, totalling \$35,000, made payable, the first to John Sheedy, the second one to John Sheedy, Jr., and the last one to Robert H. Sheedy.

Was this division of payments provided for in

the original contractual letters, if that's what there were?

A There was some arrangement whereas if Mr. Sheedy would sell the collection for cash in the amount of \$30,000 or installment payments for \$35,000. Apparently the sale was made under the installment basis.

Q Was there any bill of sale or anything showing that?

A I found none.

Q We don't even know to this date whether we have got clear title, do we?

A I couldn't say. As I say, I found no bill of sale for this particular item.

Q And which of these Sheedy's did we contract with?

A I believe it was John Sheedy, the owner of the collection.

Q Did the contract or letters of contract specify that the payment be made to Robert H. Sheedy or to John Sheedy, Jr.?

A Not to my knowledge. As I say, there was no contract. It was merely an exchange of letters between Sheedy and the Board of Directors or the then Manager.

We made one additional inquiry into the expenditure by District employees in the performance of their duties in travel status.

I examined a number of travel vouchers and in

many instances, the times of departure and the times of arrival were not indicated, so that it would be impossible to determine the length of time that the employee was away.

There was also a marked failure to submit receipts for expenditures, which is required by the Department of Finance. In other cases, we found where private conveyance had been chartered by the employee --

Q Private what?

A Conveyance.

Q Yes.

A -- without a receipt. I refer specifically to the rental of an airplane by the then Secretary-Manager from the Tri-State Airport. The only evidence of that hiring was a small business card with the name of the Tri-State Airport and the amount of thirty dollars written in ink on the card, which was submitted as the receipt for this particular expenditure.

I believe that covers most of my inquiry into the matter.

Q I notice that the Division of Audits over the years made criticism of the manner of the accounting for the employees' sick leave and overtime. Do you recall -- Did you make any investigation of that?

A No, I did not go into that, Senator.

Q All right.

Q BY MR. WATERS: Did you make any investigations

to determine whether or not there had been any illegal payments or kick-backs to employees through -- by reason of these purchaes that were not made in accordance with the manual?

A Yes, I did. I took a sampling of both the successful bidders and unsuccessful bidders in an attempt to determine whether there was any particular reason for bids being awarded to particular contracts. In all instances, I was told that the bid for the work performed was not over the general charges made for that particular work; that, in fact, in most cases, the bid was under what the other contractors would have charged. We did get one comment to the effect that the contractors could not conscientiously have bid that price and made any profit on the contract without furnishing inferior materials.

We also took a sampling of the suppliers of --

SENATOR FISHER: Excuse me just a moment.

THE CHAIRMAN: Senator Fisher.

Q BY SENATOR FISHER: Was that comment by some unsuccessful bidder at some time?

A That is correct. Yes, that's correct, Senator.

We did the same as regards to suppliers. We found that the prices charged by the suppliers were competitive prices; however, as I say, we found no case, except in one instance where any discounts were given for the purchase.

Q The State does have a normal discount it receives on almost any purchase?

A Yes, in volume purchase, the State generally receives a discount.

Q Mr. Martino, you examined into the year previous -- or your examination included the year previous to the period examined by the Division of Audits in this examination --

A Yes, I think --

Q -- referred to?

A Yes. I think my examination extended to two years prior to their inquiry.

Q If you refer to pages 5, 6, 7 and 8, there appears to be a course of conduct with regard to failure to receive bids, failure to issue purchase orders, failure to get Department of Finance approval, and making payments in advance of the time provided for in the contract. Would you say that the -- from your examination, that the two years previous were -- of business were conducted by the management of the Fair in about the same manner as the period covered by the Division of Audits?

A Yes, I believe the same.

Q This was not an unusual period?

A No, the same conditions existed in the prior years I examined.

Q So that we could expect something on the order of \$200,000 to have been expended by the District in this --

in this manner in previous years, as well as this period?

A Yes, that is entirely correct, Senator.

In fact, we even discovered where in many cases the bills were paid under authority of the manager prior to the approval of the Board of Directors, which was required for the payment of all bills.

Q That the payment had actually been made before it was submitted to the --

A That's correct. We found warrants for payment of some of these supplies and services, which had been made previous to the time that the minutes disclosed that the Board of Directors had approved those payments.

Q I don't -- I won't take time to find it right now. There is a circumstance provided for in the Administrative Manual in small matters, where the payment can be made prior to the approval by the Board?

A Yes, there is that.

Q But you are not -- you are referring to --

A I am referring to some of the larger items.

Q Larger items that do not come within the exception set forth in the Administrative Manual?

A Yes, that's correct.

Q Over the period that you examined into were the checks usually drawn and paid over the signature of just one person?

A Generally, most of the checks were executed by

one person, Mr. Paul Mannen.

Q That includes, does it, or doesn't it, these items which were paid without approval of the Department of Finance?

A Yes.

Q Without proper bids?

A That is correct.

Q And without -- You have made examination of other state agencies along this same line in the past?

A In some instances, yes, I have.

SENATOR FISHER: I have no further questions.

Q BY MR. WATERS: Mr. Martino, did you find any instance where payments were made by a Manager which did not reflect as having been submitted at any time for approval to the Board of Directors?

A Yes, we -- I found several instances of those.

Q Were there not some large payments made to contractors in that manner?

A Yes, which I think I referred to previously as progress payments.

Q Do you know of the report issued by the Committee "Examination of the 22d District"?

A Yes, I am acquainted with that report.

Q Have you read it?

A Yes, I have.

Q From your examination and your knowledge of the

District, does the committee report fairly reflect the situation at the 22nd District at that time?

A In those areas which I particularly inquired into and in other areas over which I conversed with you at the time, I believe that that truly reflects the situation as of the time.

Q While you were making the investigation at Del Mar, did you accompany me to the office of the Del Mar Turf Club in order to obtain a financial accounting from the Turf Club of the transactions between the District and the Turf Club?

A Yes, I did.

Q Will you tell the committee what occurred on that occasion?

A I believe you and I called upon the offices of the Del Mar Turf Club in the early part of October, requesting to see Mr. Don Smith. I believe we were informed at the time that Mr. Smith was either out of town or not available, but that Mr. Read would be glad to render any service. We were then introduced to Mr. Read and at that time, I believe you asked Mr. Read to furnish a copy of the transactions between the Turf Club and the 22nd District. Mr. Read thereupon took us to the accounting office, and introduced us to a Mr. Burns, I believe.

The same request was made by you to Mr. Burns. My best recollection is that Mr. Burns said at the time that

the information you required would take weeks and weeks to assemble, that a statement of the financial dealings had been filed with the Director of Finance and that such a statement would be available to you through the Department of Finance.

Q Is it your recollection that what was requested of Mr. Burns was a simple statement as to the moneys received by the Turf Club and/or Operating Company from the 22nd District and the moneys paid by the Turf Club and/or Operating Company to the 22nd District?

A Yes, my recollection is you asked for any information regarding exchange of moneys between the Turf Club and the 22nd District.

Q Do you have anything further, Mr. Martino?

A No, sir.

THE CHAIRMAN: Further questions?

SENATOR FISHER: I have one further.

Q Mr. Martino, you said you began your examination to discover whether or not any laws had been violated and then whether or not there was any criminal activity. Just for the benefit of the -- those present, there is a distinction, is there not, between violation of the law and the violation of the law which is considered criminal in nature?

A Yes, sir, there is.

Q And you did find that the laws had been violated on numerous occasions, both as to the statutes and as to regulations?

A Yes, we did.

Q During the period of 195 -- January, 1957, was it?

A From '57 through the current year of '59 -- up to the current year of '60.

Q And that the statutes of the State of California had been violated on numerous occasions?

A That some of the statutes had been violated.

Q And you did find numerous violations of the regulations contained in the Administrative Manual?

A Yes, we did.

Q And that this was a consistent course of conduct?

A I believe it could be classified as such, yes.

Q During your examination, however, you found nobody had violated any criminal statute?

A That is correct, Senator. At the conclusion of my investigation, it did not appear that there was any criminal evidence, which would warrant any prosecution under the criminal laws of the State of California.

Q Did you form any opinion as to whether or not the continuous violations of laws in regard to bidding and contracting and the administrative regulations governing that, as both appear in the administrative manual -- did you come to any conclusions as to whether or not this was intentional and done with knowledge of the existence of these?

A I have drawn no conclusions, Senator, but from the information that I received during the course of the

inquiry, I was led to believe that some of these violations were done with full knowledge of the violation of the administrative procedures.

Q Can you cite any single instance that you recall?

A Yes, I believe that the present Fair Manager told me on one occasion that rather than submit a contract for bid in the -- in an amount over \$500, that the then manager had merely consulted trade books, rather than solicit books in ascertaining the price of the materials desired.

Q There was one other question that your discussion raised in my mind where they had received bids that were over \$10,000, rejected the bids, and then put it out under a contract under the \$10,000, or where advertisement for bids was not required; was it for identical work or was the work changed, so that the amount would be --

A In those cases, the original specifications were scaled down so that they would come under the \$10,000 limit.

Q And so certain of the work was then eliminated for the called for bid?

A That is correct, but we did find that in some of these contracts an additional provision was made that in the event that more work was required, then a new set of prices would apply as to the overwork.

Q And did you find any instance where two contracts were let in order to complete a job which had originally been put out for bid over \$10,000?

A I believe there is one instance I recall of that. I can't recall the specific instance right now.

Q So that rather than advertise the bids and take it in one job, it was broken down into two?

A Yes, I believe that was the case of some of the contracts regarding the paving for the parking area.

SENATOR FISHER: Thank you.

THE CHAIRMAN: Further questions?

Thank you, Mr. Martino. The committee will be in recess until 1:30 when we will ask Mr. McClure, Mr. McCoy, Mrs. McCoy, Mr. McLachlan, Mr. Sheedy and Mr. Snider to be available.

(Whereupon a short recess was taken after which the following proceedings were had:)

THE CHAIRMAN: The committee will come to order.

We will call Mr. Robert McClure.

ROBERT MC CLURE,

called as a witness, was examined and testified as follows:

EXAMINATION

BY MR. WATERS:

Q Please state your name and occupation.

A My name is Robert McClure, Secretary-Manager of the 22nd District Agricultural Association, Del Mar, California.

Q How long have you been so engaged?

A I have been Secretary-Manager since August 1st, 1959.

Q Prior to that?

A Prior to that, I was Assistant Manager, 22nd District Agricultural Association from June 1st up until August 1st.

Q You succeeded Paul Mannen?

A That's correct.

Q But you worked with Paul Mannen at Del Mar prior to succeeding him?

A For two months, yes, sir.

Q Before becoming Manager, and while you were there as Assistant Manager, were you aware that there was anything wrong insofar as the management and procedures of the District were concerned?

A Well, Mr. Waters, primarily for the first two months that I was there as Assistant Manager, I was there in a role of an observer to see the operation of the Fair while they were setting up and getting ready. As far as being aware of any widespread irregularities, I didn't make any attempt to check into those very honestly.

I will say this: That I saw certain procedures that I probably would not have done the same way, but no two people operate a business in the same way.

Q You mean procedures wherein the manual was not

followed?

A Well, very honestly, I didn't -- I wasn't there checking into that sort of thing. I was there, so to speak, and to see the operation of the Fair and how it was set up getting ready for the Fair, but I did not go into their books and records if that's what you mean during that period.

Q After you became Manager, did you discover that there were instances where the regulations and the statutes were not followed previously?

A Well, yes, if you follow your manual, and I am fairly well acquainted with the manual, there were instances where --

Q First, you are referring to the Fair Manual?

A I am referring to the Fair Manual, yes, sir.

Q Had you occasion to see that before coming to --

A I have been familiar with that particular manual ever since around '53 when it was first put out. I have used it for other fairs.

Q You have worked for other fairs?

A Yes, I have. The State Fair, Dixon Fair and Crescent City.

Q You have read, of course, the audit of the Division of Audits, the last one?

A Yes, sir.

Q Covering the period January 1, 1958 through July

31, 1959. In it, there is a recital which has been referred to during the hearing about contracts where there were no written bids, no service agreements, purchases where there were no purchase orders; do you take any exception to any of those statements in that audit?

A Which page is that on, Mr. Waters?

Q Well, just generally, the whole audit. Do you have any exceptions to the findings of that audit?

A Oh, no, no. I see what you mean. Generally speaking, no. It's a pretty complete picture.

Q The report of the Senate Committee, entitled Examination of 22d District Agricultural Association, have you read that?

A Yes, sir.

Q When did you first see this report?

A Well, of course, at the time you were conducting an investigation, I believe you used our office as headquarters and while you were preparing that, you checked with me a number of times. I saw certain excerpts and paragraphs that you were working on.

I believe that the first preliminary one that I saw, that is, before it was in published form, was at least several weeks prior -- at least that, prior to the time it was published. It could have been longer than that.

Q You did see it then in rough draft?

A I saw it in rough draft, yes, sir.

Q Were you given an opportunity to correct it for any errors of fact?

A Yes, I was. Yes, I was. As a matter of fact, if you recall, you went through a large portion of that report with me, and a number of items were deleted that I was able to point out to you were in error; however, I would like to make this statement and that is this: That you will have to realize that I was there only a short period. I was not conducting the investigation myself, and so some of those things, I could not advise you on. I mean, it was beyond my knowledge.

Q But you did suggest changes?

A Oh, yes.

Q And those changes were made?

A In some instances. You didn't always agree with me.

Q Well, Mr. McClure, I am not asking you as to the opinions which may have been in the report, but only as to those things which were factual; you did have the opportunity to point out errors, to make suggestions as to changes, to correct the statements, did you not?

A Well, that's correct. That's correct.

Q Now, as Manager of the 22nd District, have you been able to determine the total cost to the District of its operation of the plant as a rental property for the purpose of conducting races?

A No, sir, in my opinion, it's an impossibility.

Q You would know of no way to determine what the actual costs were during that period?

A Not at the present time, no, sir.

Q Are there costs involved in the conduct of the Fair itself, which are unusually high as to the setting up and as to clean-up?

A Yes.

Q I mean, by that, Mr. McClure --

A I know what you mean.

Q -- in your experience as a Fair Manager, would these be unusually high costs, compared to other fairs?

A I think probably this fair is unique in the whole State of California in that we have a tremendous problem with regard to setting up for the fair and tearing down after the fair is over, and of course, any time you have to move things in, move things out, it's certainly doubling your costs. For instance, just for example, many of the buildings that are used for exhibit buildings, where you have displays, booths, and that type of thing, normally at most fairs, they will just leave them in position, but here where they are used by the Turf Club for other purposes after the fair, then we have a problem of removing all those.

Q This would be true in the buildings that you use for poultry exhibits and livestock exhibits also?

A Yes, that is correct.

Q Have these costs been kept separate and assigned to the cost of the District to operate a rental property?

A No, sir, they have not.

Q Do you believe that you will be able in the future to keep some kind of accounting wherein you can determine what the cost to the District is of being landlord to the race track?

A I don't believe that any of the present fair personnel, including myself, are capable of setting up such a cost accounting system such as you are speaking of. I believe that we could receive help from the Division of Audits and possibly the Department of Finance in setting up such a cost accounting set-up.

Q In your opinion as Manager, would that be desirable?

A It would be extremely desirable.

Q After you became Manager, and became aware of certain deficiencies in procedures, what have you done to improve these matters?

A One of the first things that I did when I took over as manager was endeavor to set up a purchasing procedure that would follow the procedures outlined in the manual.

That has been accomplished and it is in practice at the present time. We are endeavoring to set up a proper cost accounting system, but I believe that the books will be more representative of the costs for the various depart-

ments and the various items that appear in our books. I believe it will be easier to run down than at the present time.

We have endeavored, and I believe that I can say without exception, we have written contracts for all services that have been rendered out there on the Fairgrounds.

We have endeavored to purchase on an annual basis; in other words, through the Bureau of Purchasing out of Los Angeles, rather than on a day to day basis. Of course, you have to realize it's absolutely impossible to anticipate fully everything you are going to need for a year, but we have made some very substantial purchases through the Bureau of Purchases out of Los Angeles, some of them running up as high as \$5,000 for lumber, electrical supplies, that type of thing.

We have cancelled out all of the rental income insurance. I believe that is mentioned here in the Audit Report, as I recall. We have collected the premium -- the what do they call it, the unearned -- the balance of the premium for the unexpired term. We have collected that, and we are endeavoring to get the full amount of the premiums returned to us that we paid.

We issue expenditure orders; most outfits call them purchase orders, but we call them expenditure orders, so that everything that is purchased out there is -- does have a record on a regular expenditure order. Those are

some of the items that we have done.

Q Are you endeavoring to get written contracts to be submitted for approval for the use of the property during the interim periods?

A Yes, sir. I don't believe there has been an activity held out there at the Fairgrounds since last August but what has been covered with a form that we call license agreement for the use of the Fairground facilities. Those are all covered.

Q Are you advertising for bids in construction projects?

A We are, whenever it is required, as it is outlined in the manual, yes, sir.

Q Do you have any trouble getting the contractors to bid?

A No, sir.

Q There are sufficient contractors willing to bid when you advertise, are there?

A Yes. We opened bids here not too long ago on a concrete block wall. I think we had twenty bids submitted.

Q In your opinion, as Manager of that District, would it be helpful to you to have the matter between the District and the Turf Club Operating Company cleared up and clarified, so that you, as Manager, would know what they are entitled to and what the District is entitled to?

A Well, Mr. Waters, it is my personal opinion that

until everything is down in black and white as to what the Turf Club is supposed to do and what the District is supposed to do, until the -- a proper opinion is given to us, I don't know whether by the Attorney General's Office or the Department of Finance, or who it would be, but until we get some kind of an opinion from some other agency, with respect to the rights of the Turf Club, the rights and the obligations of the District, you are always going to have trouble. There is going to be continual uncertainty out there.

In other words, everything that we do and everything at the Turf Club is colored by the relationship between the Turf Club and the Fair; every building we build is colored by the fact that the Turf Club is going to be using the premises; certain things that they would like to do, they can't do, because we are going to use them for Fair purposes, so until there is some sort of a basis of understanding established here, in my opinion, there is always going to be a rather unhealthy situation existing.

Q Because of the uncertainty?

A Yes, yes. Well, actually, because we don't -- none of us seem to know what our rights and duties and obligations are.

Q Because of that -- well, excuse me -- I will rephrase it.

That uncertainty also creates problems for you,

as Manager, in connection with the actual Fair operation and interim activity uses as well, does it not?

A Yes. As I say, everything that takes place out there is colored by that relationship.

Q Did the Board of Directors request the Attorney General for an opinion as to the validity of the lease and for a clarification as to the provisions of the lease?

A As I recall it, I believe it was last August, August of 1959, I was directed by the Board of Directors at a regular Board meeting to write to the Attorney General's Office and there were five or six specific questions that they wanted clarified by the Attorney General's Office.

One of them -- one of the questions was just about as basic a question as you can ask with regard to that and that was this:

"Is the lease valid?"

There were several other points that they wanted cleared up and they were asked in question form to the Attorney General's Office.

We have received no answer to that letter up to the present time.

Q You have not received an answer at this -- up to this present time?

A Not in writing, we have not, no, sir.

THE CHAIRMAN: What was the date of that request?

THE WITNESS: It was in August of 1959.

Q BY MR. WATERS: Which was before this committee undertook an examination of the District?

A I believe so, yes, sir.

Q Did you have much contact with Mr. Paul Mannen, or have you had since you have been Manager?

A Since August 1st, 1959, when I took over as Manager?

Q Yes, sir.

A I have probably seen Mr. Mannen more the last two days than I have in the whole period between now and August 1st, 1959.

I would imagine Mr. Mannen and I have met each other in almost a year's time probably not more than a dozen times.

Q Did you on any of those occasions discuss the operations of the Fair?

A Well, usually the reason we got together was because I had some specific question that I wanted to ask with regard to whom to contact for somebody that had done service for the Fair in the past, or something like that, yes.

I also met Mr. Mannen several times in company with Mrs. Gross (phonetic) when we discussed the Sheedy Indian litigation.

Q Have you received anything of value from Mr. Don Smith or Mr. Eddie Read, or from the Turf Club since

you have been Manager of the 22nd District?

A Well, I don't know how valuable you would call a cup of coffee, but aside from -- I think that's about the extent of it. When I have conferred with him, which I do quite frequently, since he is our primary tenant out there, we usually sit down over a cup of coffee in their office, or else over in our office, and will discuss mutual problems. Aside from that, absolutely nothing.

Q Do you have any further statements you would like to make, Mr. McClure?

A No, sir.

Q Thank you.

THE CHAIRMAN: Senator Fisher.

Q BY SENATOR FISHER: Have you, since your tenure there had available for all of the personnel under -- working under your direction, the Fairs Administrative Manual?

A Senator, I am sorry. I missed the first part of that question.

Q I said since you have been with the 22nd Agricultural District, has this manual been available for the people there?

A Yes. One of the first things that I did when I came down and found there was, I believe, only one volume available, I requested of the Division of Fairs and Expositions that they send me down two or three more copies, which they did.

At the present time, I think there are four in

general circulation throughout the administrative office.

Q One of the first provisions in the chapter -- in fact, the first provision in the chapter on contracting procedures is a discussion of governmental code sections relating to contracting. You are generally familiar with those?

A Yes, I believe you will find, as you go through the manual, that everything that pertains to a Fair operation is pretty well spelled out in that manual.

Q You are acquainted, are you not, with the Government Code Section 13370, which provides that all contracts entered into by any State agency for hiring of equipment and supplies and so on and so forth, is subject to Department of Finance approval?

A Yes, sir, I am acquainted with that.

Q And particularly that part of it which provides that until such contract has received approval -- well I will quote -- they are -- "that such contracts are," and I quote, "of no effect unless and until approved by the Department of Finance"?

A Yes, sir, I am acquainted with that.

Q Were there any outstanding obligations or purported obligations of the -- of the District after you took over, which have not been approved and have not yet been paid?

A Not to my recollection, Senator.

Q Are there some pending bills from Allen Ross, for instance?

A Oh, yes. Yes, you are correct in that statement.

Q Were there any bills other than Allen Ross, which have been left pending for lack of Department of Finance approval or otherwise?

A Well, I can't remember of any, Senator. The one that you mentioned, Mr. Ross' bill, of course, still has not been paid. It's still up in Sacramento.

Q Well, on one occasion, were you requested by the Department of Finance, Division of Fairs and Expositions, to hold a special meeting to approve bills which had not been paid and were the subject of question?

A Well, I don't think any such request was ever made. I don't -- I don't recall the --

Q You don't recall any such request?

A I don't recall that meeting, no.

Q Have you gone over the estimated budget for the first year of operation and --

I am sorry. Withdraw that question.

Did you come in the middle of what would be considered a fiscal year, or at the beginning of it?

A No, sir. They -- our budget year commences January 1st.

Q So you came in in the middle of your budget year?

A Yes, sir.

Q What was the amount of the budget estimate under which you were working for the year 1959?

A Well, as I recall, I wish I had the budget here; I could tell you exactly -- I think it was somewhere between -- in the neighborhood of around \$600,000.

Q Did the amount of contracts and services contracted for roughly equal that, or were they less than that, or did they run substantially over?

A You mean did we exceed our budget?

Q Yes.

A Yes, the budget was exceeded in several categories; in other categories it was not.

Q To what extent in total?

A I believe the administration went over -- exceeded the budget roughly \$20,000. Entertainment exceeded the budget that was set up, I think, around \$10,000. Altogether, I believe the total -- you see, we have -- we have what you call a budget transfer within one category. For instance, buildings and grounds, we will say we budgeted \$150,000. We are allowed to spend up to \$150,000 within that category. If we exceed that, then we have to get a budget transfer approved by the Department of Finance, Division of Fairs and Expositions, allowing us to exceed that.

Q It comes out of some other portion of your budget?

A No, it comes out of our unbudgeted reserve, what we call the unbudgeted reserve. You would perhaps call it a surplus fund, funds that were actually not budgeted for any specific purpose.

Q To look back over the previous years, can you -- two or three years, anyway, do you have any occasion to examine the budgets for those years and how closely they conform with actual expenditure?

A I don't think there's a fair in the State of California, Senator, that at some time or another, throughout the year, doesn't have to make a budget transfer. Some emergency thing will come up, something like that.

Q Well, that's why --

A As nearly as I can recollect, I believe that probably they averaged, oh, about five budget transfers per year.

Q All I am trying to find out is whether this was an extraordinary situation where you went twenty or thirty thousand dollars over last year, or whether it was normal to vary about that amount with the budget?

A No, I think last year was an unusual year as far as exceeding the budget was concerned.

SENATOR FISHER: I have no further questions.

MR. CHAIRMAN: Any questions, Mr. Waters?

MR. WATERS: No... No.

THE CHAIRMAN: Thank you very much, Mr. McClure.

Mrs. McCoy.

MARILYN MC COY,

called as a witness, having been first duly sworn, was examined and testified as follows:

EXAMINATION

BY MR. WATERS:

Q Would you please state your name and your occupation?

A I am Marilyn McCoy. I am the present bookkeeper for the 22nd District.

Q How do you spell McCoy?

A M-c-C-o-y.

Q How long have you been bookkeeper?

A Since September 1st, 1959.

Q As bookkeeper for the 22nd District, would it be possible for you to determine the actual cost of operation of the track as a rental property over the entire period, commencing with 1936?

A No.

Q Would it be possible for you to determine the actual cost for the year 1959?

A No. For the current year? No.

Q Why not?

A Because we don't keep a cost accounting system.

MR. WATERS: Thank you, Mrs. McCoy.

THE CHAIRMAN: Any questions?

SENATOR FISHER: I have one question.

THE CHAIRMAN: Senator Fisher.

Q BY SENATOR FISHER: Insofar as you have been able to review or look at the records for prior years, has a cost accounting system ever been used by the District?

A No, it's not required by the Fairs Administrative Manual.

Q No, I just want to know whether it's ever been in effect.

A No, no.

MR. WATERS: Thank you, Mrs. McCoy.

THE CHAIRMAN: Mr. Cheyney.

BRUCHMAN R. CHEYNEY,

called as a witness, was examined and testified as follows:

EXAMINATION

BY MR. WATERS:

Q Please state your name and occupation.

A Bruchman, B-r-u-c-h-m-a-n R. Cheyney, State Purchasing Agent.

Q How long have you been the State Purchasing Agent?

A Since 1956.

Q And as State Purchasing Agent, what is your function?

A The Administrative head of the Purchasing Division, which is charged with the responsibility of making all purchases for the State agencies with the exception of the University of California.

Q For all State agencies?

A Yes, sir.

Q And are the District Fairs of this State State agencies?

A To the best of my knowledge, yes, sir.

MR. WATERS: Mr. Chairman, I would like to at this time submit for the record an opinion from the Legislative Counsel, in which the question is asked: "Are District Agricultural Associations State agencies?"

"Opinion: District Agricultural Associations are State agencies."

THE CHAIRMAN: The document shall be received for the record of the Committee.

Q BY MR. WATERS: Now, as Purchasing Agent, it is your responsibility then, to purchase for all State agencies all materials and supplies and equipment in excess of twenty-five dollars?

A Yes, sir.

Q And it's so provided in the Government Code?

A Yes, sir.

Q And in the case of purchases over \$1,000, what is the requirement of the Government Code?

A That sealed bids be solicited.

Q And there are procedures specified in the Code for the manner in which those bids are to be obtained, received, opened and processed; is that not correct?

A Yes, sir.

Q As a matter of fact, you personally assisted in drafting those laws, did you not?

A In some small measure, perhaps.

Q In your opinion, as State Purchasing Agent, would it be possible for a District Fair to conform to the law in purchasing in excess of \$1,000 without requisitioning its needs through your office?

A In the absence of some specific delegation of authority on the part of the Department of Finance of which I am unaware, the answer is no.

Q Well, let me ask you this question, sir:

Inasmuch as you are familiar with the procedures which must be followed in securing bids, in receiving bids, in opening bids, in processing bids, and the provisions for protection of the vendors, providing for protest to the Board of Control, would it be possible, even if the Department of Finance, in some manner, authorized a District to purchase materials or supplies in excess of \$1,000, for them to follow those procedures?

A If I understood you correctly, Mr. Waters, the answer is no.

Q Have you read Chapter 36.1 of the Fair Administrative Manual?

A I have, sir.

Q Do you feel that it is in compliance with the provisions of the Government Code?

A Again, Mr. Waters, in the absence of some specific delegation of authority on the part of the Department of Finance, the answer is no.

Q Do you think that you could, if requested by proper authority, assist in revising that manual so that it will conform to the spirit of the law and the intent of the law?

A I believe I might be of some assistance.

Q Do you believe that it would be to the advantage of the Districts to purchase through your office?

A I do.

Q As a matter of fact, Mr. Cheyney, were you aware of the fact that the District Fairs throughout the State have been purchasing in excess of \$1,000 without going through your office?

A No, sir.

Q As State Purchasing Agent, if that is brought to your attention, do you feel that you have some responsibility in seeing that that situation doesn't continue?

A Yes, sir.

Q Now, there was a report issued recently by the Department of Finance, which touched on some of these matters. Have you seen that report?

A Subsequent to its release, yes, sir.

Q There was no consultation with you in the preparation of that report?

A No, sir.

Q Referring to a purchase made by the 22nd District for trophies and ribbons from Allen Ross in 1959, was that purchase called to your attention by anyone?

A By the Division of Fairs and Expositions.

Q And were you requested to do something about it?

A We were, sir.

Q What were you asked to do?

A We were requested to ascertain if the prices which were shown on the invoices, copies of which were given us, were comparable to prices paid for similar articles for which we had made purchase for the other -- for the State Fair and other organizations of a similar nature.

Q And what did you determine?

A The buyer to whom the task was assigned endeavored to secure, on the basis of invoice information, confirmation of the prices. His evaluation indicated that the prices on Rogers silverplate seemed to be excessive.

Q They were excessive?

A In comparison with prices which we had paid for similar articles on other occasions.

SENATOR MILLER: Mr. Chairman.

THE CHAIRMAN: Senator Miller.

Q BY SENATOR MILLER: What percentage were they in excess of what your investigator, or your purchasing agent indicated was the correct price?

A Senator Miller, I believe that the discount was approximately -- offered on the invoice was approximately thirteen percent, and it was the buyer's finding that these discounts ranged normally from ten to thirty percent, depending on the volume involved.

On this size of this particular transaction, it was determined that twenty-eight percent seemed a fair discount.

Q And there was, in fact, a discount of twelve percent instead of thirteen, you say?

A Thirteen percent, as near as I can recollect.

SENATOR MILLER: Thank you. That's all I have.

Q BY MR. WATERS: Was that buyer furnished samples of the merchandise in question?

A No, sir, he was not. We merely operated from the copies of the invoices, which were furnished us.

Q You were here this morning?

A Yes, sir.

Q You heard the testimony of Mr. Ross this morning?

A Yes, sir.

Q Is the buyer who made that report here?

A Yes, sir.

Q Will he please come up.

BERT COTTEM,

called as a witness jointly with Mr. Cheyney, was examined and testified as follows:

THE CHAIRMAN: Please be seated and state your name and occupation, please, for the record.

THE WITNESS: I am Bert Cottom, C-o-t-t-e-m.

EXAMINATION

BY MR. WATERS:

Q How long have you been a buyer, Mr. Cottom?

A Nine years.

Q Do you regularly handle merchandise of this type?

A No, sir.

SENATOR MILLER: What type?

MR. WATERS: Of the type which is under discussion, and which he was asked to review the invoices for, trophies and ribbons.

SENATOR MILLER: Mr. Chairman.

THE WITNESS COTTEM: No.

Q BY MR. WATERS: Had you had any experience with that?

A None at all.

Q Did you have samples of the trophies?

A No, sir.

Q Did you have samples of the ribbons?

A No, sir.

Q So that your appraisal then would have been merely looking at the invoice and attempting to make the comparison with that of other prices which you thought might be similar merchandise?

A That's correct.

Q You heard the testimony this morning from Mr. Ross?

A I did.

Q Did you still believe -- are you still of the opinion that he gave a thirteen percent discount to the District?

A No, sir.

Q So that if you had the same request before you now, you would write a different report?

A I would come to the same conclusion, however.

Q Sir?

A I would come to the same conclusion.

Q Which was that the prices were excessive?

A No, that we should have received twenty-nine percent discount.

Q In other words, you feel that it would have been normal to make something in excess of a hundred percent

mark-up, and then discount it twenty-nine percent?

A My recommendation was we should receive twenty-nine percent discount from the list price of the merchandise.

Q From the list price?

A List price, not the invoice price.

Q And did Mr. Ross -- what do you mean by list price, Mr. Cottlem?

A List price, the way I see it -- saw it, is the basic item that would be a bowl or tray without the insignia or engraving.

Q Well, I don't think we quite got the answer to what a list price is. Is that --

A Oh, the manufacturer's list price; I am sorry.

Q His price or his suggested retail price?

A Well, that would be suggested retail price.

Q List price would then be suggested retail price?

A Yes.

Q And from Mr. Ross' invoices that you examined, he gave a thirteen percent discount of the list price to the District?

A No, I made a bad assumption. I assumed that the invoice -- the prices shown on the invoices were the manufacturer's list -- retail price.

Q And the invoices you examined were Mr. Ross' invoices to the State for the merchandise that he furnished?

A That's correct.

Q You did examine the invoices that Mr. Ross received from the -- from his supplier?

A I did not.

Q Mr. Cheyney, did you review that purchase yourself?

A BY THE WITNESS MR. CHEYNEY: No, sir.

Q Did you have any knowledge of it?

A No, sir.

Q Did you have any knowledge of it?

A No, sir. You are speaking now, I assume, of the original purchase?

Q No, sir. I mean, when -- you said that you were contacted in some manner by the Division of Fairs and -- or the Division of Fairs and Expositions forwarded to you some material and asked you to review it and give them an appraisal of prices charged; is that correct?

A Yes, that is correct.

Q Did you review that file yourself, or did you turn it over to Mr. Cottem?

A I casually looked the thing over, Mr. Waters, and then gave it to Mr. Cottem.

Q Well, what I am trying to determine Mr. Cheyney is whether you have special -- as to whether, in your opinion, it was a legal purchase?

A The answer to that, Mr. Waters, as far as I am concerned is that the information given us indicated that there were several purchases, two of which exceeded \$1,000.

Obviously, those purchases were not consummated in accordance with the statute.

MR. WATERS: I have no further questions of Mr. Cheyney.

THE CHAIRMAN: Any questions, Senator Miller?

SENATOR MILLER: No.

THE CHAIRMAN: Thank you, gentlemen. You may be excused.

MR. WATERS: Mr. McLachlan.

ERIC MC LACHLAN,

called as a witness, was examined and testified as follows:

THE CHAIRMAN: Have a seat, sir, and state your name and occupation for the record.

THE WITNESS: Eric McLachlan, Chief Audit Division, Department of Finance.

EXAMINATION

BY MR. WATERS:

Q How do you spell your name, Mr. McLachlan?

A M-c, capital L-a-c-h-l-a-n.

Q How long have you been the Chief of the Division of Audits?

A Since April 1st, 1951.

Q Are you a CPA?

A I am.

Q In your connection as Chief of the Division of

Audit, did you have made an audit of the 22nd District covering the priod January 1, 1958 to July 31, 1959?

A I did.

Q And that's the document to which this committee has referred this morning on --

A On numerous occasions.

Q On numerous occasions. Mr. McLachlan, there were a number of recommendations made in this audit report, and I would like to ask you if this was the first audit that your Division ever made of the District?

A Oh, no, we have made audits of the District since 1939.

Q Each year?

A I believe there was one prior to that in 1937.

Q Each year?

A No, we have not been on an annual basis since 1955. At that time, the program was changed to a two-year audit basis for our entire program, including all other State agencies. This was done at the recommendation of Price-Waterhouse, who conducted a survey of auditing and accounting for the joint Legislative Budget Committee. Since that time, we have been on a two-year program throughout all of our audits.

This last year, at my request, our budget was increased to enable us to go back on a one-year audit program in connection with the Fair program.

Q So that the audit prior to that would have covered what period?

A Prior to what date?

Q Prior to this last audit that we have been referring to?

A Well, the audit prior to that called -- covered a two year period, as I recall it, from January 1st, 1955, to December 31, 1957.

Q Were there a number of recommendations made in that audit as to the irregularities of the District?

A There were some recommendations made by what we call an interim letter. These interim letter --

SENATOR MILLER: Mr. Chairman.

THE CHAIRMAN: Senator Miller.

Q BY SENATOR MILLER: I didn't hear you.

A I said there were some recommendations made at that time in interim letters that were conveyed to the District and summarized in our report. I might explain --

Q Would you explain for my benefit, at least, what an interim letter is?

A As I say, since 1955, we have been on a two-year program. At about the same time, we adopted a procedure whereby we conveyed to the agency and to the Auditor General, Division of Fairs and Expositions, our recommendations, our findings, as we find them; rather than put them in a formal audit report, these are in the nature of immediate informa-

tion to the interested parties, so that corrective action can be taken. These we term "interim letters". Also, at the recommendation of Price-Waterhouse, we reduced our formal report into somewhat a summarization of these interim letters. This was at Price-Waterhouse's recommendation that our reports be less formal than they had been in the past years.

I might say at the present time that this interim procedure continues to be the main source of our reporting.

Q BY MR. WATERS: And then, the audit before that would have covered what period?

A Do you mind if I refer to our files on that?

Q No, sir.

A Mr. Malis, will you bring them over.

This is Mr. Leonard Malis from our Los Angeles office, who conducted the last investigation on the 22nd District. Mr. Malis is also a CPA.

THE CHAIRMAN: How do you spell that name?

MR. MC LACHLAN: M-a-l-i-s.

THE WITNESS MR. MC LACHLAN: The audit prior to the previous one I referred to covered the calendar year 1955, and prior to that time, they were on an annual basis.

At that time, in 1955, we submitted an interim letter containing some seven or eight recommendations.

Q BY MR. WATERS: Were there things in the 1955 audit, which caused you to direct attention to the management?

A As I stated before, we issued an interim letter containing some seven recommendations of operational character. I can read these recommendations if you care to --

Q No, thank you, Mr. McLachlan, at this time I would just like to refer, as a matter of fact, to February 24, 1954; there was a letter in which twelve recommendations were made, is that correct?

A February 26, 1954.

Q All right. In 1955, there were several letters pointing out various -- Well, in 1955, in March, there was a letter in which there were a number of points made by your Division?

A That's correct.

Q And in December, 1955, another letter, in which there were seven points?

A This was transmitted on September 18, 1956, Mr. Waters, covering the 1955 examination.

Q Now, it would appear from that that the 22nd District, over a period of years, through your audits, evidenced irregularities insofar as procedures and their fiscal affairs were concerned?

A This is true. I might state that this is probably true of all other fairs too.

Q Well, in connection with the 22nd District, was the management -- did the management make any effort to correct these irregularities?

A I would say over a period of time there were efforts made to correct the irregularities. The situation got fairly good for a number of years as far as observing approvals of the Department of Finance, getting budget transfers are concerned. I discussed this with my Staff members, who have been engaged on this audit in the past years, and they felt that up until about two or three years ago that most of the procedures were carefully followed for a period of time --after the war -- prior to the war and immediately after the war; the situation was kind of bad at that time.

Q Were some of the things that you found in 1951 or '52 or '53 and so forth, did they reoccur -- were they reoccurring matters?

A This is common. They quite frequently reoccur, such as expense accounts being outside of the Board of Control rules.

THE CHAIRMAN: Mr. McLachlan, I would like to request you to speak a little closer to the microphone and a little louder. We can't hear you even here.

SENATOR FISHER: Could we have the last answer?

THE WITNESS MR. MC LACHLAN: Frequently, there are re-occurring recommendations, or reoccurring deficiencies in Fair operations. This depends to a large extent upon who is keeping the books, who is managing the affairs.

Common types of reoccurring recommendations are --

or reoccurring deficiencies are failure to observe the rules of the Board of Control pertaining to travel expenses, and showing time of departure and arrival, not presenting hotel vouchers within the rules, failure to get bids where deemed necessary, or failure to record those bids, so that they could be allotted; these type of recommendations are frequently reoccurring in Fair operations.

Q BY MR. WATERS: Well, would the 22nd District, from your knowledge of the audits, be better than other fairs or worse than other fairs?

A Well, for -- for a period of years, the staff felt that they were probably in a good condition in comparison with other fairs, were well operated.

Q Referring specifically to your findings for the period January 1, 1958, through July 31st, 1959, would you say that what you found there was better or worse than other fairs?

A I say this was worse than other fairs.

SENATOR MILLER: Mr. Chairman.

THE CHAIRMAN: Senator Miller.

SENATOR MILLER: I would like to ask Mr. McLachlan a couple of questions.

Q Mr. McLachlan, should you, as a result of your audit, make a recommendation under the system that you described to us at the opening of your remarks, and your recommendations are not followed, repeatedly not followed,

what do you do?

A We, as Division of Audits, can do nothing. Our sole power is to report -- examine and report.

Q And you report to the State Department of Finance, of which you are a division; is that right?

A This is correct. Copies of all interim letters go to the Division of Fairs and Expositions.

Q Then, what happens; what is the procedure?

A The Division of Fairs and Expositions are to follow up on these recommendations and see that corrective measures are obtained. We, however, -- Senator, I might explain that in our --when our interim letters go out to the Fair Board and a copy to the Fair Manager, we then record them in a register and we secure answers from the Manager of the Fair as to what he proposes to do.

Normally, these answers go to Fairs and Expositions to see whether they are accepted. We have answers to practically all our interim letters that I mentioned earlier in my discussion, in which they agree to correct the matters brought to their attention.

Q And if the President of the Fair Board, or the Secretary-Manager of the Fair proposes to do nothing, what do you do?

A We pass that on to the Division of Fairs and Expositions or to our legal advisers.

Q And then, what do they do?

A This, Senator, I am unable to answer.

Q You don't know what they do?

A Some cases they confer with the Fair, write them letters. In other cases, the matter is dropped, or they pass approvals on items that have been already ex post facto.

Q What authority do they have to enforce the recommendations made by your audit?

Well, first, should I -- Let's put the question this way: Do you know what authority they have?

A I believe that, stretching it to the ultimate, the Department of Finance, -- the Director of Finance could refuse to pass on an allocation to the Fair.

Q Has that ever been done to your knowledge?

A It has not.

Q Has there been consistent refusals to accept as policy and procedure recommendations made by your Division of Audits?

A I would not say there has been consistent refusal; there may have been consistent failure to observe these recommendations.

Q I see. You differentiate refusal from failure how?

A In that nonperformance.

Q They are very willing to do it, you mean, but they just don't get around to it; is that it?

A This is partly true.

Q I am trying to find out what you mean.

A That is true, Senator.

Q They don't tell you they won't do it?

A No.

Q I see.

SENATOR MILLER: That's all I have, Mr. Chairman.

THE CHAIRMAN: I have one question, Mr. McLachlan.

They don't tell you they won't do it, but it shows up in a recurring situation later, does it?

A This is true, and recommendations are again repeated in our reports.

In fact, many of our interim letters go headed: "Prior Recommendations not Effected".

SENATOR FISHER: Senator Arnold, I have a question.

THE CHAIRMAN: Senator Fisher.

MR. WATERS: Mr. McLachlan, in your opinion --

SENATOR FISHER: Just a minute.

MR. WATERS: Excuse me, Senator Fisher.

Q BY SENATOR FISHER: Referring to Pages 5, 6, 7 and 8 of your report for the eighteen months starting January 1st, 1958, it appears to cover expenditures in the sum of approximately \$200,000, or a little over that, in which either written bids were not obtained or purchase orders were not issued, or the Department of Finance had not approved, or where payments were made in advance of approval

and so forth and in some cases, all of those situations obtained, as I understand it. This apparently was out of a total amount spent in that period, I gather, something in excess of \$600,000.

Is it normal for a State agency to fail to comply with the bidding and contracting regulations and statutes of the State to the extent of about a third of the budget?

A It is not, Senator.

Q There was some testimony that this failure to obtain bids and so on and so forth, and at this date of January 1st, 1958, was there any indication of that at the time you made your examination this last year?

A No, Senator. We went through our working papers and there were no such indications that there was any widespread failure to obtain this.

Q So that this failure may have just occurred in the last couple of years?

A That is true. I might point out that during the last few years, we have had the services of Mr. Pringle only once a week, and that prior to that time, they were fairly -- fairly diligent at getting proper approvals, of preparing expenditure orders for approval by the Department of Finance in those cases where they were required.

Mr. Pringle has retired a couple of years ago, as I remember it, and has been available to the Fair only one day a week, this on a contract basis through a public

accounting firm.

Q Do you know of any other State Fair where the failure to comply with the bidding on contracts has been as extensive as this the last couple of years?

A No, I do not, Senator. I do not.

Q Or any State agency that spends this amount of money?

A I would say this, Senator, that Fairs are much different than the other State agencies, since they have possession of their own money, and can make payments without observing the rules and regulations of the Department of Finance.

All other State agencies have to clear through the Treasury in filing their claims.

Q So that in other State agencies, a warrant or a check is issued by the Controller, rather than by the body itself?

A That is correct.

Q Pardon?

A That is correct.

Q And so the opportunity to get into this difficulty is rather more extensive in this situation simply because there is not the centralized control?

A This is quite true. I might expand on it that the Fair operations are such that they are highly seasonal and not much of a permanent staff is available to any Fair

and many Fairs operate with just a manager and a secretary through the off-season. This does not provide any -- any internal check, as it is known in the accounting circles, and since they have in their possession their own funds, available to them, which can be withdrawn by one signature, there is no distribution of duties such as we will find on a larger scale, so the internal check is lacking almost entirely in a small fair operation or even a medium sized fair operation.

Q This is about the third or fourth biggest State Fair in the State?

A Comparing with other District Fairs. I am not talking about the State Fair where we have a permanent staff of about ninety people.

Q So that if there is not proper supervision by the Division of Fairs and Expositions, or by somebody, the likelihood of failure to comply with these statutes is rather extensive; is that right?

A It can get extensive; as I stated before, it depends to a large extent upon the efficiency or the desire of the management. The only real check that we have had in the past on the operations of a fair have been the post audit examinations.

The lack of internal check was primarily the basis that I made a recommendation a year ago to the Budget Division that we be -- go back to an annual audit on these

Fairs.

Q I missed part of your testimony. Do you audit normally only once every three years?

A Normally; as I stated before, we went onto a two year program in 1955. This -- a two year program means that sometimes that it will extend over two years, because of lack of personnel.

Actually, we -- we have many emergency jobs in our Los Angeles area during that job, and we got in arrears on some of our examinations.

I would like to point out that this last report was originally started as of December 31st, 1958, but due to the fact that Mr. Mannen was retiring in July, we extended it to July 31st.

Q So that that's the reason for the extra six months?

A That is correct.

Q Let me ask you if this was a more thorough examination this time that you conducted?

A Yes, it was. Normally, our examinations are somewhat limited due to the available time that we have; everything that we do is based on a budget, and our normal examinations are a test audit, testing for bids, testing for expenditures.

Q So that you pull out just one item and see whether or not the procedures have been carried out?

A We may pull out two or three months' items, or --

Q And then, you just do a group of the two or three that you pull out?

A This is true. This is normal audit procedure.

Q And what was done in the case of the last audit that we have been referring to?

A This is more extensive. We covered a greater percentage of expenditures than what we normally do, and -- since the Board had requested a more thorough audit.

SENATOR FISHER: Thank you.

THE CHAIRMAN: Mr. Waters.

Q BY MR. WATERS: Mr. McLachlan, in your opinion, how could the State enforce better control over the Fairs to prevent the Fairs from ignoring your recommendations?

A I believe a greater measure of internal control over expenditures could be obtained by requiring that all of the funds be deposited in the State Treasury and withdrawn only on claims approved by the Department of Finance. This would give the Department of Finance a pre-review of the claims before they were paid to see that proper bids had been submitted and the proper procedures had been followed.

This might delay some local payments, but I feel that this would be -- could be handled through a revolving fund of a limited nature.

Q And it would be -- the money would be paid out by the Controller and he would not pay it unless the supporting documents showing the proper procedures had been

There is an error in page numbering

NO PAGES MISSING

followed were submitted along with the claim?

A This is correct. I might add it would also provide some interest earnings on the funds of the Fair.

Q Sir, I didn't hear you, Mr. McLachlan.

A It might provide some more interest earnings on the funds of the Fair, if we could get them concentrated in one place.

Q You mean by that some of the Fairs have moneys which are not deposited to bear interest?

A This is correct.

Q And as a matter of fact, is it not true that all other State agencies expend money only in the manner you have now described by going through the Department of Finance and the Controller?

A This is correct.

Q Do any of the Fairs have cost accounting systems?

A No, none.

Q Would it be possible for your Division to devise some simple method of cost accounting wherein there would be a better picture of the cost operation of the various projects at the Fair?

A The term cost accounting is a relative term.

Q I understand that, Mr. McLachlan.

A We might be able to devise a more detailed breakdown of expenditures between the objectives for which they were made. I would, however, feel that any standard cost

accounting system prescribed for all of the Fairs would be highly inadvisable.

I feel that in certain situations you might provide a special cost finding method that could be devised of a simple nature.

Q Do you think specifically with reference to the 22nd District that it would be possible to devise some cost -- simple cost distribution system wherein the District would be able to determine the exact cost to them of operating a rental property, namely, the Del Mar race track?

A Mr. Waters, I hesitate to say exact cost; I would say more accurate than they now have.

Q A simple method?

A It could be a simple cost finding system, I feel, distribution based upon the circumstances of operations during that year. This may change one year to another.

Q Would it be practical to do so?

A I believe so.

Q Would it be advisable in that situation, if you know?

A This again depends on whether they are going to maintain a full-time bookkeeper or not, which is not a common thing among most Fairs.

Q Well, as a matter of fact, they do have a full-time bookkeeper at that Fair now, Mr. McLachlan.

A Well, I just found that out a little while ago.

Q Do you know of the report of this committee entitled "Examination of the 22d District Agricultural Association"?

A I do, Mr. Waters.

Q Did you read that report?

A I did.

Q Do you believe it fairly reflects the situation as you found it through your audits?

A I would say in all major respects, yes.

Q Referring specifically to the first sentence of the second paragraph on page 24, it is stated in the absence of cost accounting, the financial experience of the 22nd District as a race track land lord to date will remain forever a mystery, and I would ask you as a CPA if you believe the actual cost to the District over the entire period of its track leasing could be satisfactorily determined?

A I do not.

Q Did your audit disclose the fact that the Del Mar Caterers were occupying 22nd District property without authorization?

A It did not. There are some notes in our permanent file to the effect that the Del Mar Caterers were not operating on the grounds other than during the racing meet and the Fair meet.

Q Then, your audit did not find that they were occupying a cafeteria building at other times and a warehouse building?

A It did not.

Q And the Arts building of the Fair?

A Mr. Malis --Could I have Mr. Malis answer that?

Q Has your name been put in the record?

A Mr. Malis.

(LEONARD MALIS)

(was examined as a witness and testified as follows:)

THE WITNESS MR. MALIS: When we generally appear to perform our duties for the State, generally, the -- the Del Mar Caterers and their employees were not on the premises.

We were aware that they did occupy an office, located near the -- I believe it's the -- in the Administration office, but other than that, we were unaware of any other activities, because they were not around at the time we were performing our duties.

Q BY MR. WATERS: And there was nothing in the records of the District that would disclose that use?

A There were no -- there was nothing in the records.

Q Was there -- did you find a written agreement in the proper form approved by the proper people for the use of the office building by the Del Mar Turf Club -- by the

Del Mar Caterers.

A I examined many of the agreements; I don't remember that particular agreement at the present time.

We only remarked upon those agreements that did not conform with State regulations.

Q So if there was no agrement, you couldn't remark about it?

A That's correct.

Q Did you have knowledge that the Del Mar Caterers in fact constructed a building on State property, namely, a cafeteria building?

A I was unaware of that.

Q Were you also unaware of the fact that they constructed on State property a warehouse building?

A I knew about the warehouse building at the time of the last audit. At that time, there was some controversy about the building between the present Board of Directors, and since it had not been settled, we did not enter into the matter.

Q There was -- was there any agreement giving the Del Mar Caterers a right to construct such a building?

A All I heard was rumor of a -- I could not get any -- I could not see anything in writing, which gave them that right.

Q Were you aware of the fact that the Del Mar Turf Club was occupying the property outside the terms of

the Franchise Agreement?

A I don't quite understand your question.

Q Were you aware of the fact that the Del Mar Turf Club, for example, was managing the property during the Western Harness Association meet?

A I knew of the Western Harness using the grounds. Our permanent file, which I had with me at that time, referred to the Western Harness lease agreement that the -- I believe the Association had about 1949 or '50 -- that we had a recommendation in 1951 that the Association negotiate a lease with the Western Harness Racing Association. I think that that recommendation was repeated in 1952; I think it was repeated in 1953, according to our permanent file.

In 1954, a new sub-franchise agreement occurred between the Association and the track in which a - - I believe a description of a plot of land was described, in which the Turf Club was given all rights to use that particular part of land for eleven months of the year. I believe our Division dropped the matter probably believing that it no longer -- the Association no longer had any interest in that section of land; however, I was not present at these particular audits back in '52 or '53. It might have been in one of them, but I don't know all the details. But we do have these notes in our permanent file.

Q Well, now, Malis, your understanding of the lease agreement is not my understanding, or I don't believe it's

even represented to be that way by the Del Mar Turf Club. It's my understanding that the lease provides for the occupancy by the Turf Club for the period of the race meet, including fifteen days before and fifteen days after, and it further provides that the Del Mar Turf Club will maintain the area north of the Avenue of Flags described on that plat during the rest of the year, but does not give them the right to use the property.

A BY MR. MC LACHLAN: Might I interject here it is our understanding -- was my understanding when we discussed it with our staff that the sub-franchise agreement to Operating Company prescribed that they would carry on the maintenance of the grounds as provided in the original franchise, and that the payments by Western Harness Racing Association were for the purpose of maintaining the grounds beyond that which they would normally have to do, and this was discussed with our staff some years ago. We made notes in our permanent file here that the Association was in process of negotiating an agreement and understanding with the Western Harness Racing Association. They evidently never came to that agreement.

Q Well, that answers the question before I asked it.

THE CHAIRMAN: We will have a five minute recess break for the Reporter.

(Whereupon a short recess was taken, after which

the following proceedings were had:)

THE CHAIRMAN: The committee will come to order.

Mr. Waters.

Q BY MR. WATERS: Mr. McLachlan, do you know of a -- of the report that was issued by the Department of Finance about May 4th on the Fairs?

A BY MR. MC LACHLAN: Yes.

Q Were you consulted in connection with that report?

A No, we were not consulted. We submitted some recommendations of a minor nature, regarding Fair procedures. I think since the report has been out, I have had some discussions with Mr. Muchmore about it.

Q Since the report --

A Since the report came out.

Q Now, in referring to your last audit, you have recited in this certain purchases that were made without following the prescribed procedures in the manual and State law. I note in the examination which I made, there were many others which were in the same circumstances; for example, purchases from the Lumber and Builders Supply total in excess of \$22,000 during 1958, and I would like to ask you whether -- why your audit examination would not show those purchases?

A As I explained, or tried to explain before, our audit reports are largely summaries of our findings, and we -- this group that we cited in the published report are

not all that we have in our working papers.

Q They are just examples?

A These are just examples.

Q Now, when you find that a purchase has been made illegally, what recommendation do you then make?

A Oh, I might say we actually don't make any recommendation. We pass it on to Fairs and Expositions with the information for them to follow through on.

Q And it's up to them to take the action?

A That is correct.

Q On page 11 of your Audit, you make a recommendation the association should cancel rental income insurance policies and secure return of unexpired portions of insurance. Why should they not have secured refund on the entire amount if it was an illegal purchase of insurance?

A This was a slip on my part. In the review of the report, I should have said they should secure refund of the entire premium.

Q On page 6 of that report, with reference to the horse show trophies and ribbons, you recite that the -- what the Board of Directors feels should be done in the matter of that purchase. That was not your audit recommendation, was it?

A No, this is merely stating --

Q A recitation of what the Board members felt?

A This is the information we obtained from the Board

members.

Q You heard the testimony concerning that transaction this morning, Mr. McLachlan?

A Yes.

Q The transaction of the trophy purchase from Mr. Ross is the transaction I refer to.

A Yes.

Q In your opinion, was that a legal purchase?

A I would prefer to -- I am not a lawyer -- I would say that the procedure was highly irregular from a procedural standpoint, possibly to the point where it was illegal -- an illegal purchase. This I would have to refer to legal counsel.

Q BY SENATOR FISHER: Which one was this, Mr. McLachlan?

A The Ross purchase of trophies.

Q BY MR. WATERS: Do you think it's proper for a horse show manager at a District Fair to purchase the trophies and ribbons from himself?

A There might be some question of incompatibility.

Q In your audit examination, in connection with the Sheedy purchase, did you find any approval of the Department of Finance?

A The Department of Finance approved a budget transfer document, providing the funds for the purchase of the Indian relic collection, and we discussed this matter

with Fairs and Expositions and it was considered as an approval of the transaction.

Q Was it normal procedure to secure such approval, Mr. McLachlan?

A Normally, they would make out an expenditure order and transmit it to the Division of Fairs and Expositions with a full explanation of the purchase.

Q They would submit a document to the Division of Fairs and Expositions which would then be approved or disapproved and there would be a record of that document?

A I do not believe the Fairs and Expositions would keep copies of that document. I don't believe they keep copies of all things that are submitted for approval, but rather approve them and return them to the Fair.

These are expenditure orders, which, under the Fair procedural system, take the place of a purchase order and it is used for various purposes.

Q Your audit report states this collection was purchased, although no approval was received from the Department of Finance and no written contract was made; is that the correct statement?

A There was no written contract but I think subsequent to printing of this report, we found out that there had been a budgetary document approved, but there had not been an expenditure order approved.

MR. WATERS: I have no further questions, Mr. Chairman.

THE CHAIRMAN: Questions by the Committee?

SENATOR MILLER: I have nothing.

THE CHAIRMAN: Thank you, Mr. McLachlan and Mr. Malis.

Mr. Al Snider.

Just have a seat, Mr. Snider.

AL SNIDER,

called as a witness, was examined and testified as follows:

EXAMINATION

BY MR. WATERS:

Q Please state your name and occupation.

A My name is Al Snider. I am Chief of the Fairs and Expositions Division, Department of Finance.

Q And how long have you been so employed?

A Twenty years.

Mr. Chairman, do you mind if I have my assistant over here at the table, Mr. Heineman?

THE CHAIRMAN: No, it's perfectly all right. Bring him over.

WALTER HEINEMAN,

called as a witness, and was examined and testified as follows:

THE CHAIRMAN: Would you state your name, please?

THE WITNESS: Walter Heineman, H-e-i-n-e-m-a-n.

THE CHAIRMAN: And your position?

THE WITNESS: Senior accountant in our Division.

THE CHAIRMAN: Thank you.

Q BY MR. WATERS: Mr. Snider, would you give us a brief outline of the functions of your Division, your responsibility?

A We have the supervision and approval of the financial and management policies of District and County Fair procedures. We examine the budgets, we pass on the purchases, contracts, compile the master premium lists, approve the premium lists of all District and County Fairs. We have an engineering section of four engineers.

THE CHAIRMAN: A little closer to the microphone, please, Mr. Snider.

THE WITNESS MR. SNIDER: It is the duty of that section to prepare plans and specifications for structures costing less than \$50,000. They supervise the construction of these buildings on District Fairgrounds, and we also make requests to the Public Works Board for allocations for construction for District and County Fairs. That, briefly, is it, Mr. Waters.

Q BY MR. WATERS: Have you been -- were you in attendance at the hearings today?

A Yes, sir.

Q All through the hearings?

A Yes, sir.

Q Yesterday?

A Yes, sir.

Q Are you learning some things?

A Yes, sir.

Q How do you keep posted on the various Fairs in order to exercise the controls and carry out your responsibilities?

A Mainly through correspondence and office calls. We operate on a rather informal personal basis with these Fair Directors and Managers, and they frequently come into our office and we discuss matters with them there and also in the field. We have -- the engineers are out most of the time in the field and pick up information for us.

I make trips and so does the Assistant Chief, and we keep -- we read the minutes of all the Board meetings, everyone in the office reads the minutes, and we make notations on there of anything that has to be taken care of, and through the audit reports.

Q Now, what are your procedures insofar as those things which are required under the Manual to be submitted to you for approval? What happens? How does that -- how do they accomplish that?

A The contracts come in and are examined by a staff member, who checks the contract against a check list to see that all the provisions are fulfilled and proper regulations and so forth. If not, he sends it back to the Fair for correction and it is returned.

When it is approved in our Division, we send it across the street, over to the Capitol, I should say, to the legal section of the Department of Finance for approval there as to legality, and also for policy questions involved. Then, it goes to the Deputy Director of Finance or to the Director for their approval or disapproval.

SENATOR FISHER: Mr. Chairman.

THE CHAIRMAN: Senator Fisher.

Q BY SENATOR FISHER: I would like to ask under which Deputy Director of Finance do you operate?

A Don Muchmore.

Q BY MR. WATERS: Prior to that who?

A Fred Links for many years, and then Jess Mumford (phonetic).

Q Now, do you ever disapprove any of the proposed contracts?

A Yes, we have.

Q And sometimes, after your disapproval, do you discover that the Fair has gone ahead and done it anyway?

A That happens, yes.

Q What do you do then?

A We take them to task and tell them not to do it again; that's about as far as our powers go.

Q Do you -- What authority do you have to enforce your disapproval?

A From the Department of Finance.

Q Well, I mean, how do you enforce it then?

A Well, we do a bad job of enforcing it, Mr. Waters. There is no penalty that we can inflict for violation of these things.

Q If, as in the situation -- well, let's take the hypothetical situation -- if a proposal is submitted to you for approval for the expenditure of \$5,000 by a District, and you disapprove, and they go ahead and do it, you are not then able to penalize the District in any manner?

A Not so far as I know.

Q You cannot deduct that \$5,000 that was spent on your disapproval from their next year's allocation?

A No, we can't, Mr. Waters. At one time, I recommended to the Sub Committee on Ways and Means, a number of years ago, that any Fair exceeding its budget without prior approval, that the amount, which they exceeded their budget, would be deducted from their next portion, but it got no place.

Q Do you ever disapprove anything and then have the Deputy Director or someone in a superior authority over you in the Department countermand your order?

A Oh, yes, that happens.

Q Now, what about the instances where a District might do something which requires approval, but neglects to secure that approval from you and doesn't submit it so that you could approve or disapprove, what do you do then?

A We usually pick that up on the audit reports, and there again, we caution them to get in line and most of them -- most of them do. I would like to say this for the record: I am not -- you have a case here that is not normal for Fairs. I grant that they do have defects in their operation, but they have done a tremendous job over the last few years, I think, for California.

SENATOR MILLER: Mr. Chairman

THE CHAIRMAN: Senator Miller.

Q BY SENATOR MILLER: I wonder if you would mind repeating what you just said.

A I say that the Fairs have done a tremendous job for California over the past years. They are not all operated as the one you have here, although there are certain defects in practically any Fair that you examine.

Q You say you think the Fairs have done a tremendous job over the last years?

A Yes, sir. Yes, as a whole.

Q What do you mean by "a tremendous job", sir?

A Well, I mean, they have certainly helped the livestock industry. They have helped 4-H and Future Farmer Boys and Girls. They have provided facilities for these community centers in these smaller places that are used by the public and I think in many ways, they have helped community life in -- and particularly in the remote areas.

Q You are talking about Fairs, generally?

A Yes, sir.

Q I see.

That's all I have.

THE CHAIRMAN: Mr. Waters.

Q BY MR. WATERS: What about the 22nd District Fair?

A Well, I was surprised at what I heard today. I didn't realize it was like this.

Q Do you not receive copies of Mr. McLachlan's audit reports?

A Yes, we do. The -- but this last one was totally different from the two prior ones, in which, I believe, the statement was made that prior recommendations had been -- had been fulfilled.

THE CHAIRMAN: Senator Fisher.

Q BY SENATOR FISHER: You do have general review of their budgets, don't you?

A Yes, sir.

Q And you do have these contracts coming before you for approval or disapproval, don't you?

A Yes.

Q And you do go over their minutes of their meetings?

A Yes, sir.

Q Each time, so that instances where the contracts had not been approved by your Division, you would know that the next month if they tried to pay it, wouldn't you?

A No, we would not particularly, Senator. Probably show up -- the first we knew was on this audit report.

Q Well, you have got an accounting division. What functions do they perform in your Division?

A They examine the budgets and pass on the budget transfers, but on an operation like this where you don't even ask for a budget transfer until the end of the year, why, we don't know anything about it.

Q Well, would you discover it at that point of time?

A Sir?

Q Would you discover at that point of time that something had gone wrong in the preceding year?

A Yes, that's true.

Q You had never discovered that?

A I hadn't discovered this until we got the report. some weeks ago, I think.

Q Now, your -- are Fairs required to report to you each month the expenditures they made in that month?

A Required; I don't know whether all follow them or not.

Q What is your requirement?

A Our requirement is that they send into us a monthly bank financial statement, the moneys that they have spent, the numbers of the checks, who it was paid to and

for what.

Q And is any check made between that report and the record which you keep, if you keep one, of the approval or disapproval of the items submitted to you on -- on these contract forms?

A We check that against the budget forms to see that they are staying somewhere in the budget.

Q Well, do you keep any record of what you have approved and haven't approved?

A Yes.

Q And what do you do with that record?

A Well, we keep it on file there.

Q Does anybody ever look at it after you disapprove of an item?

A No.

Q You mean you just put -- make a note of that and nobody ever sees that record again?

A A disapproval, yes, that's the way we handle it.

Q If a man -- and then, in a subsequent month, if you find that the matter has been paid, do you send a statement as to their bank account and what they have paid and haven't paid and the check numbers, -- you mean that is never checked against --

A Oh, we check back against that, yes, to try to hold them in line.

Q Well, then, in any one month, could you tell

what payments had been made on which you had not given prior approval?

A Yes, provided they send in all the information on it, yes.

SENATOR MILLER: Mr. Chairman, may I ask a few questions? Are you through, Senator Fisher, for a moment?

SENATOR FISHER: Let me --

SENATOR MILLER: Stay with it.

Q BY SENATOR FISHER: Let me ask you about the items listed on page 5, 6 and 7 in the audit report, if you were aware of any one of those payments and the failure of the 22nd Agricultural District to obtain proper approval or to obtain bids, or their failure to comply with the bidding and contracting statutes or regulations of your own Division.

Did you know -- let's just take an instance on June 10th, 1958, there was a payment to John Sheedy of \$8,000; would you have had a record of that in the month -- in the subsequent month, would that show up in your records?

A That would show up, yes, sir.

Q And is anybody in your Division given the responsibility for reviewing that to see whether or not it was a proper payment?

A Yes, Mr. -- one of our accountants does that, Senator Fisher.

Q Now, it appears that you had -- that there was no written contract for the purchase of the Sheedy collection, and that no appraisal had been obtained, though you had requested that one be made, and that you had given no approval for this purchase. Now, when you received notification from the District in June or July of 1958, that they had paid John Sheedy \$8,000, which you had not approved, what occurs within your organization; does a man just look at it and file it?

A Senator Fisher, in this case, the Sheedy Indian Collection, I discussed with Mr. Mumford, the Deputy Director of Finance, and I understand Mr. Mannen and one or two of the directors then -- and Senator Kraft then came to Sacramento to talk about it. I wasn't in on the conference about this at all. I did talk to Mr. Mumford about the advisability of spending this money for the Indian collection while either --

Q You didn't understand my question. I didn't ask yet what you did in this instance. I am saying what is the normal procedure within your organization for bringing that to your attention and getting something done about it, because as I read the bidding statutes and so forth, and the contracting statutes, this is not a valid contract. The State, in fact, doesn't owe the money if it is not a valid contract. Now, you find that a payment has been made in the sum of \$8,000 in the preceding month and that you

have not approved that and therefore it's been paid out on an invalid contract, if any contract at all had been signed, and apparently there wasn't even that in existence.

Now, what happens within your Division as a normal procedure?

A Normal procedure would be for the accountant to notify the District of this and get the information on it and try to get the money to be paid.

Q Is that matter brought to your attention in that instance?

A Not all of the time, no, sir.

Q Well, I assume the District knows it's made the payment of \$8,000. I assume it knows it hasn't entered into a contract, and I assume it knows it doesn't -- it hasn't received your approval.

Now, other than just bringing it to the attention of the District that they have paid it, what else happens within your Division?

A What in regard to this situation you are talking about?

Q Pardon me?

A In regard to this situation?

Q Well, I am talking about taking this as an example.

A Well, the thing we do is to follow up on those by -- either by letters or personal calls to get them

straightened out, if there is any straightening out to do.

Q Well, was anything ever straightened out on that?

I withdraw that question.

Would the same procedure occur in each instance where a payment showed up in a particular month where there had been no approval, or there had not been bids, or there had not been a written contract; would every such payment follow this procedure?

A I don't know. I doubt that everyone would, Senator. I am not --

Q Well, what is your office practice?

A The office practice is as I described, to follow up on these with letters or by sending an accountant down to the District.

Q Is each item checked, or isn't it?

A Yes, each item is checked, yes.

Q So presumably each item would be caught that was not proper?

A It should be.

Q So in fact, your office, whether you, individually, were aware of it or not, your office was aware of each one of these payments in the year, in the period January 1st, 1958, to -- until July 31st of '59; your office did have notice as to each one of these payments; is that correct?

A They should have had, yes. I personally didn't, no.

Q But there is a normal procedure in your Department to catch each one of these as it comes up?

A That's right.

Q Now, you may tell me exactly what happened in the case of the Sheedy contract.

Excuse me, just a moment. You want to follow up?

SENATOR MILLER: Go ahead.

Q BY SENATOR FISHER: I would like to know exactly what happened in the case of the Sheedy contract.

A The proposition was submitted to us for approval. They wanted to spend this money for this collection of Indian relics, which was --

Q Before or after they had received, or apparently purchased them?

A Before.

Q All right.

A A conference was held with Mr. Pierce, John Pierce, then Director of Finance, by representatives of the District, and as I understand, then, Senator Kraft, who came to talk to the Director about buying this collection. I was not in on that conference at all, knew nothing about it until told later; however, Mr. Mannen phoned me about the collection. He was in quite a hurry to get it for his Fair. I assume there was some time element there, or some reason he was in a hurry, so I went over to see Mr. Mumford,

the Deputy Director of Finance, and told him what the deal was, and he nor I were very much in favor of it, but they were insistent down here and the Board had voted for this purchase, and the money was, there for Fair purposes; it couldn't go to the General Fund, or anywhere else, and if they hadn't spent it for that, they probably would have spent it for a building or something, so we reluctantly gave our OK. Mr. Mumford gave his OK on the budget transfer, which was initialled by Mr. Miller, the Assistant Chief, and he called Mr. Mannen and phoned him and told him that the deal had been approved.

Q Have you ever received in your files anyplace in your Division a contract in the form prescribed by your regulations?

A Not an expenditure order, Senator Fisher. We filled it out ourselves and sent it down here to keep the records straight.

Q And what does that show?

A (Witness presents document to Senator Fisher).

Q I have been shown an expenditure order, No. FE1, dated October 6, 1959, certificate of approval shows "Approved, A. E. Snider, Chief of the Division -- Chief, Fairs and Expositions Division, October 6, 1959."

That is the only thing in your file which shows approval for payment?

A (Witness presents another document)

Q You have now shown me a piece of paper, which is entitled "Transfer of Budget Allotment, 22nd Agricultural Association," which approves a transfer of \$30,000 from resources available to capital expenditure equipment classification; is that correct?

A That's correct, yes, sir.

Q This money is available in one kitty and is transferred to another kitty?

A That is right.

Q Now, that is not approval of a -- of a contract entered into for the purchase, is it; this is your approval for the transfer from one fund to another?

A That's exactly -- yes.

Q This is nothing more than the -- than having money in the bank for that expenditure if --

A That is true, that it be transferred for that purpose.

Q Well, what you have in fact -- not by this instrument, at least -- but you have in fact not, by this instrument at least, made any approval of a purchase, have you?

A Except by telephone, Senator Fisher.

Q You did what?

A Mr. Miller, the Assistant Chief, phoned Mr. Mannen and told him that we had approved the expenditure.

Q But there is no approval form in your file,

except on October 6, 1959; is that correct?

A That is correct, yes, sir.

Q So the approval of the Department for the expenditure -- not for the transfer -- but for the expenditure, required by the statutes in the first paragraph of Chapter 35 of your Administrative Manual, that approval was not executed until October 6, 1959; is that correct?

A It would be a verbal approval and the --

Q Section 35.2 --

A Pardon me, Senator, what page are you referring to?

Q I am referring to page 35.2.

A Well, there certainly ought to be a contract, if it's to be on an expenditure order. We purchase equipment, make purchase on these purchase orders with contracts.

Q This is a purchase of equipment, is it?

A Yes, sir.

Q And the Government Code quoted there says, "All contracts entered into by any State agency for (a) the hiring or purchase of equipment, supplies, materials, or of text books for the use in the day or evening elementary schools of the State, (b) services, whether or not the same is involved in furnishing or use of equipment, construction, alteration, improvement, repair or maintenance of property, real or personal, or (c) the performance of work for services by such State agency for and in cooperation with

any person or any public body are of no effect unless and until approved by the Department of Finance."

Now, can you think of any circumstance that that doesn't cover?

A Well, it seems to be all-covering; however, in Chapter 36.1, under purchases, Senator Fisher, there's -- Do you have it there in your book?

Q 36.1?

A .1, yes, sir.

Q I have it.

A "It's the policy of the Fairs and Expositions Division of the Department of Finance regarding purchases by District Agricultural Associations as follows: Form F9A should be used for all purchase commitments and should be numbered in sequence."

Q Was that done in this instance?

A Sir?

Q Was that done in this instance?

A That's that form that you have.

Q That's the expenditure order form?

A Yes, that's right.

Q All right. Your point?

A Well, my point is that that's one we -- this is the procedure that we followed here.

Q In fact, it was not followed prior to the expenditure of all of the \$30,000; is that right?

A Well, that is true.

Q In fact, the approval -- certification and approval of the Executive Officer, which is normally required on all such purchases, was not executed until October 6, 1959, which was two weeks or so after the Division of Audits had issued the --

A Yes.

Q -- document, which we have here; is that correct?

A That is correct, yes, sir.

Q Now, I would point out that your original transfer occurred May 1st of 1958. Can you tell me why your Department didn't follow its own regulations from May 1st, 1959 until October 6, 1959, with regard to expenditure of \$30,000?

A That's inexcusable, I will grant you that.

Q Is this a normal way of doing business in your agency?

A No, sir.

Q All right. A number of other items are listed on pages 6, 7, and 8, and I would like to ask you if -- if you have ever, in regard to any one of those items listed there, issued your approval after the fact, instead of before the fact?

A That I don't know, Senator.

Q But your testimony has been, has it not, that each one of these should have come to the attention of your Division?

A That is true. That is true.

Q And would that include the situation in which -- in which progress payments were made prior to time of due dates under the terms of the contract itself?

A How is that again, please?

Q Well, on the bottom of page 6, it says, "All construction contracts entered into by the Association provided that payment would be made after satisfactory completion of the work. Instead progress payments were made to the contractors during the course of construction, which would be in advance of the due date," and then there is a list, totalling some \$165,000, roughly, of such payments.

A I can't answer that question, sir. I am not familiar with that.

Q Should your division have --

A They should be.

Q -- found that out?

A Yes.

Q But you are -- you are not --

A Personally, I don't know.

Q -- personally aware of this situation?

A This is generally handled by the Assistant Chief of the Division, Mr. Miller.

Q Is this the gentleman sitting - -

A No, sir, this is Mr. Heineman.

Q What was the name of the Assistant Chief?

A Mr. George Miller.

Q That is not Mr. George Miller, a senator from Contra Costa County, is it?

A No, sir.

Q Now, there were other contractual services obtained where there were no written bids and no service agreements were prepared, and the Department of Finance approvals were not obtained, and those are listed to the total of about \$22,000 on page 7.

Would each one of those have come to your attention in a --

A Yes.

Q -- in the normal course of events within your Division?

A Yes. Yes, sir. I would be glad to do this, Senator, if it would give you -- give the committee a report on these when we get back; you are entitled to them.

Q I am sure we would like to have them.

A All right.

Q Now, Mr. McLachlan testified that normally his audit is to examine only one or two or three, within certain categories, as I understood his testimony, on a sampling basis, and that for this report -- for this eighteen month report, his sampling was more extensive, but it was still a sampling. Would your division have turned up the items which, statistically, would have had to have been missed

by this audit? Would it reveal what other items fell within these categories, no bidding, no service agreements, no approval? Could you give us an absolutely complete list of all such items?

A I think we can do that, yes.

Q Could you do that for the last three years?

A Well, we will undertake it, yes, sir.

Q There's a file kept in your office of those expenditures, which are not made according to law so that you can go to them?

A We don't have that, Mr. Heineman advises me.

Q No records are kept of that so that you have a -- so that you are in a position to judge whether or not a Fair is attempting to comply or isn't attempting to comply?

A No, we don't have that.

SENATOR MILLER: Mr. Snider --

THE CHAIRMAN: Senator Miller.

Q BY SENATOR MILLER: Over how many Fairs do you exercise jurisdiction?

A Seventy-one District and County Fairs.

Q Seventy-one District and County Fairs?

A Yes, sir.

Q Do they all send you requests for approval for each of the contracts requiring approvals as set forth in the statutes and in your regulations?

A A great majority of them do, Senator, yes, sir.

Q What do the others of them do?

A Well, I wouldn't want to say that all of them do, Senator.

Q As a matter of fact, all of them don't, right; some of them don't?

A Some of them don't.

Q All of them do not comply. Do all of them send you minutes of their Directors' meetings?

A Yes, sir.

Q What detail do you require in those Directors' meetings reports?

A Well, we require --

Q Minutes, rather?

A We require the names of those present and those absent and the date, place, each action taken and the vote recorded.

Q Is it a requirement of your Department that before any moneys, other than petty cash items be paid, or any invoices other than petty cash items be paid, that there be action of the Directors of a local Fair?

A Yes, sir.

Q Do you police that to see that that is the case?

A Yes, we do the best we can. We only have one man that -- out in the field that polices that.

Q "The best we can" is a profession that is getting vastly overcrowded. You have one man to police these, to

make sure that you get an accurate report; is that correct?

A That is correct, yes, sir.

Q But you don't always get accurate reports, by your own testimony awhile ago when you said from the minutes if they give us the right information, or words to that effect; is that correct, you do not always get accurate reports?

A Well, we have to have some faith in these Fair Boards of Directors. They are men of standing in their community; most of them are trying to do a good job.

Q I am not questioning their integrity whatsoever. We all assume that they are men of integrity and status in their community, but again, they apparently don't always give you complete information; is that correct?

A That is correct, yes, sir.

Q Do the majority of them give you complete information in this respect?

A I would say yes.

Q Ninety percent of them give you complete information?

A Oh, I would lower that a bit, about seventy-five or eighty percent.

Q So we could say that perhaps two-thirds of them are complying?

A That is right.

Q What public purpose is accomplished by two-thirds

of them complying?

A I don't understand the Senator now.

Q What is the reason for all this paper shuffling that you go through? What does it accomplish?

A Well, it keeps some of them in line, sir.

Q Does it?

A Yes.

Q Let's think that one out for a minute. Who does it keep in line? It keeps in line the fellow who is not out of line; is that right?

We are not trying to play with phrases or be fancy here, but it occurs to me, Mr. Snider, that anyone who doesn't want to stay in line, or get in line, as it were, just doesn't?

A That is quite true.

Q And anyone who is already in line doesn't need you to keep them in line as a matter of fact, does he?

A That's true.

Q Then, what is accomplished by all this paper shuffling?

A All I can say to that is that it might win over some converts from those that don't comply to those that do.

Much of that paper work is required by law.

Q Much has been written about the missionary system attracting converts, but I think there's a few chapters that may have been left out.

As a matter of fact, if any one Fair Board, or even an employee of the Fair Board, without the knowledge of the Board, or with the knowledge of the Board, in either instance, wishes to enter into a contract without submitting it to you for approval, they may do it; is that correct?

A They do do it, yes, sir.

Q They do do it, and then when that is brought to your attention, what authority do you have to invoke penalties on that Board?

A We don't have any.

Q Or on that employee?

A We have none, sir.

Q Do you have any -- is there anything, other than the criminal statutes that you could use to prevent wrongdoing, or let's not use that term -- to prevent deficiencies, I believe is the term that was described here -- to prevent deficiencies of that type?

A I don't know of any, Senator Miller. On cases of that sort, I usually check it to my superiors where we have a difficult case and they make the decision.

Q Now, they send you all this paper and then you set it on a course of processing or -- is that right, examination?

A That is true. That's right.

Q But as I understand it, from the questions, or

your answers on some of Senator Fisher's questions, that you did not make a close enough examination of these reports to determine by the -- in reconciling -- withdraw that. I will start over again.

Earlier in your testimony, you mentioned something to the effect that they sent you a statement of their deposits and withdrawals?

A Yes.

Q The copies of the checks, did you say, or a register of the checks drawn, which was it?

A It was a copy of the checks drawn.

Q They send you a photostat of the checks?

A No, sir, a typewritten list.

Q A memo, a register sort of thing; is that it?

A Yes, that is right.

Q Which shows to whom the check was drawn?

A Yes.

Q And it shows who signed the check, is that correct?

A That's -- no, no.

Q It doesn't show who signed the check; what does it show?

A It shows the number of the check, the amount of the check, the date of the check, to whom it was paid and for what it was made.

Q Do you require any special system of numbering of these checks, sir? -- of these check forms?

A They are press numbered, but that's about the only --

Q They are what numbered?

A Press numbered.

Q What does that mean; maybe I didn't hear -- you say press numbered?

THE CHAIRMAN: Just a moment for the record, this is Mr. Heineman.

THE WITNESS MR. HEINEMAN: Walter Heineman.

The only requirement in regard to numbering of the checks is that they be press numbered at the time they are printed.

Q BY SENATOR MILLER: Now, will you explain to me what you -- what press numbering means?

A Well, press numbering means that at the time the checks are printed at the printer, they are numbered in numerical sequence.

Q What does press mean?

A BY MR. SNIDER: That's on a press, printing press. I am sorry, Senator Miller.

Q That's all right. Do you require that there be a number on the check?

A BY MR. HEINEMAN: Yes, sir, Senator. I just got through saying the only requirement is that at the time the checks are printed, that the printer put a number on the check. Each check is numbered in numerical sequence.

Q I see. Then, you get a report showing the checks that have been drawn and to whom they were paid?

A BY MR. SNIDER: Yes, sir.

Q You get that how often?

A Once a month.

Q Now, do you attempt to reconcile that list -- let's call it a register for the convenience of my next question, for convenience leading up to my next question in a minute. Do you attempt to reconcile that register with the minutes that you receive?

A Only to --

Q To determine whether or not -- excuse me. I'm sorry. -- to determine whether or not there has in fact been a resolution, a motion or a vote for the payment of the bills that were in fact paid by each one of these checks?

A No, we don't go into that detail, sir.

Q You don't go into that detail?

A No, sir.

Q But you do check -- did I understand you awhile ago to say that you do check the minutes to determine whether the items are approved for payment with those that you had given prior approval to from your department?

A Yes.

Q But you don't take the next step?

A We haven't.

Q You don't find out if there are other items paid

that are not included either in the minutes of -- or that were submitted -- that were not submitted for your approval?

A That's correct.

Q And of what value is that?

A Well, it keeps them from going over their budget, spending more than their budget calls for.

Q But it doesn't, because they do go over their budget in spite of all this paper they ship to you all the time; is that not true, Mr. Snider?

A I am afraid you have got something, Senator.

Q I am afraid I have too. I am afraid I have got more than I hoped I would have.

All right. I think I know what I wanted to know.

THE CHAIRMAN: Senator Fisher.

Q BY SENATOR FISHER: I would like you to show me in the Fairs and Administration Manual -- Oh, you have got your copy --

A Yes, sir.

Q I would like for you to point out to me where in this Fairs Administration Manual are instructions to District Associations to prepare for you monthly reports.

A (Witness produces document).

Q You have pointed to a letter of August 5th, 1959, referring to circular letters, and in particular, a letter of March 26th, 1957, requiring monthly trial balances.

A BY MR. HEINEMAN: May I say, Senator, that the

detail of that is set forth in that letter.

Q Do you have a copy of that letter?

A That letter is incorporated in the manual by this reference.

Q I haven't found in this manual anyplace, other than this reference, or, any specific requirement in here, except by this reference.

A That's right, sir, and that's why it says here --

Q Now, do you have a copy of that letter?

A I don't happen to have a copy with me, and I can tell you about the only thing in the letter -- the letter states is that the Fairs shall send a trial balance at the end of each month.

The main purpose of that is, Senator --

Q This is the only monthly report that is required by the District by this manual, along with the minutes that you just testified to?

A The minutes are also required, yes, sir.

Q Where in this manual --

A Chapter 5 covers the minutes, sir.

Q Those minutes are required to have set forth in them the acceptance of bids and execution of standard agreements, have set forth, as I understand it, the presentation at the meeting and the listing in the minutes, all Form 2 standard agreements executed for \$500 or more; Form 34 license agreement for the use of Fairground facilities,

all concession agreements, all purchase of equipment costing in excess of twenty-five dollars, action taken on audit report recommendations, approval of all expenditures -- is that approval normally in the form that you have testified to by check number and --

A BY MR HEINEMAN: Could I answer that? I would like to clear up this question that you had awhile ago on the approval of the expenditures. A number of the Fairs list all their expenditures in the minutes. Just recently --

Q You say none of them do?

A A number of them, say, possibly a third, and just recently -- well, subsequent to the issuance of this audit, when we found out a lot of these things were going on, we requested all the Fairs to list all the expenditures for each disbursement, each check, just like Senator Miller was asking about, and append this list to the minutes for the benefit of the Directors, as well as for our Division.

However, I want -- certainly want to point out that we don't make a detailed check of each disbursement.

Q You do not?

A We do not, no, sir. It would not be possible or practical for us to check every single disbursement made by the seventy-one Fairs. That's what the auditors do, and in fact, they don't even check all of them. They only test a few of them, because you heard they only check two or three months in a year.

Q So in fact, the testimony given a few minutes ago to the effect that every one of the items listed on pages 6 and 7 on the audit report would not necessarily have come to your attention, because you didn't actually check all of the expenditures?

A It happens -- just happens incidentally on these -- these we did know and these did happen to come in on the minutes.

Q Excuse me. Did all of those listed on these two pages come to your attention at the time of the expenditure, or within a month after?

A A lot of them came in after -- a lot of them -- these came in about -- I think about March or April.

Q A lot of them came in in one or two months?

A Yes, sir. Heretofore, they weren't listed in the minutes.

Q Well, the payments would be listed on this -- in either the minutes or the bank reconciliation that have been discussed here, wouldn't they, one thing or the other?

A The bank reconciliation, or rather the trial balance wouldn't show the detailed -- the detailed bills that were paid, but I --

Q Well, now, you have told us that you require each month a listing of all of the disbursements?

A That's --

Q By date and the check number and payee and a purpose for which it was expended; is that correct, or isn't it?

A That's correct, but that's only recently, subsequent to this report.

Q And how recently did that go into effect, since this report?

A Yes, sir.

Q And that's never been in effect before that?

A No, sir.

Q So in fact, no Fair was required to make this sort of a revelation to you at any time up until sometime within the last six months?

A Well, not a complete detailed statement, sir. Heretofore, the minutes are reviewed for anything that might be inconsistent, including all of the contracts which are approved by the Board of Directors; those are in the minutes, but to get a statement -- detailed statement of each disbursement in the minutes, no, sir, we don't check it.

Q But up until this last six months, your Division has had no control by which you would automatically discover expenditures, which had not been approved by the Department of Finance?

A That's right, sir, and that's why we issued this letter, just a recent letter requiring this detail.

Q And so, in fact, all of these items would not necessarily have come to your attention and may not have come to your attention?

A No, sir.

Q And so, in fact, there were not letters sent out to the District on each of these with follow-up on each of these items?

A Now, I explained to you, Senator, that it happened that in April or May we received some minutes from the 22nd District --

Q Of which year?

A Of 1959.

Q All right.

A That it had a list of about \$79,000 (sic) of bills, which had not been paid for -- which had been held up for a long time. When we saw this list -- it had been held up; payment on these bills had been held up and this one list --

Q For what period of time? What was the greatest period of time?

A Two or three months.

Q All right.

A When the list came in attached to the minutes, I -- it happened that I reviewed those particular minutes. I was surprised at a lot of those items that were in there. We immediately wrote a letter to the 22nd District and asked

them to please give us the information on it. Likewise, we gave the information to the Division of Audits and asked them also to look into it, and they did it; they started an audit immediately.

Q Is this the first time that you have found any occasion to write to the 22nd District Agricultural Association about payments which had -- had been paid, which were on contracts not in proper form or without prior approval of the Department of Finance?

A I believe it is, personally, myself. As far as I know, it would be. I don't know of anything in particular that I would have had to have written to them before -- before that time, sir.

Q And so that's --

A As an example, there was one item of insurance on there. We weren't aware that they were carrying insurance.

Q Well, this was the first time, insofar as you recollect within the last several years that the 22nd Agricultural District has had what Mr. Snider referred to as a letter and follow-up, is that correct?

A Would you restate that, please?

Q This is the only time, since May 1959, or thereabouts, when there has been a letter go out to the District in regard to payments made by the District on the contracts which were either not in proper form or not properly entered into, or which had not been approved by the Department of

Finance where that was a requirement of law?

A No, sir.

Q On how many --

A We have written many more --

Q On how many --

A The letter I told you we wrote was written specifically for these items that you asked me about on page 6 of the report.

Q I see.

A And we have written -- we have written to them numerous times about any other -- we will say following up on the audit reports, but --

Q Do you have trouble, Mr. Snider, with political pressure being brought to bear upon your Division to approve ex post facto expenditures which have been made, or contracts which --which you have disapproved in the past?

A No, sir. (BY MR. SNIDER)

Q Then, this Sheedy one is the only such instance where you were required to go ahead with the thing, even though you personally disapproved it?

A Well, I wouldn't put it that way, Senator Fisher. I -- I was reluctant to go along on it, but I talked to Mr. Mumford, the Deputy Director, and he was about as reluctant as I, but we finally agreed to go along with it, because the Board wanted it and the Manager wanted it. In questions of policy, Senator Fisher, we usually go along

with the Fair Board.

Q All right. I will ask you in regard to the bills still left unpaid, owing or purporting to be owing by the District to Mr. Allen Ross: Did you on some occasion in recent months call either the Manager or the Officers, or one of them of the 22nd Agricultural District, and suggest to them that they hold a special meeting for the purpose of approval of that which they had prior thereto disapproved?

A I don't recall telephoning that, Senator Fisher.

Q You just don't recollect?

A I don't recollect.

I have here a memo, which I will leave with the committee, addressed to Mr. Muchmore in regard to the claim of Mr. Ross, which is being held up, and which he proposes to ask a Board of Control for payment.

Q BY MR. WATERS: Who proposed to ask the Board of Control?

A Mr. Ross.

Q BY SENATOR FISHER: Mr. Snider, have you any recommendations to make to us as to how and in what manner legal sanctions might be put into either law or into the Administrative Code, which would effectively require Boards and management of Fairs to make adequate reports to you?

A Senator Fisher, I have come to the conclusion I agree with Mr. McLachlan the only way you are going to run it the way it should be is to put the money in the General

Fund and let it be paid out of the General Controller's office. I know it won't be popular with a number of Fairs, unless they can do a better job than we can.

Q Well, you have no recommendation as to how you can require them to follow the procedures set forth in your own manual?

A No, I haven't, sir. I don't know how you could penalize them.

Q And are you now satisfied that the procedures within your own office will, within a reasonable length of time, disclose illegal payments where they have been made contrary to law?

A That we can disclose them, you say?

Q Yes.

A Yes, I think so.

Q Not on a sampling basis, but on a regular basis?

A Yes.

Q You are satisfied, are you not, that in this instance, and I assume instances in other Fairs, payments have been made, which were not according to law?

A That is true.

Q And you are satisfied now that your procedures will reveal that within a reasonable length of time so that if you had authority, something might be done about it?

A Yes, I understand, Senator Fisher, that the recommendations of the -- contained in Mr. Muchmore's report

called for a tightening up of the controls with the budgets to be reviewed by the Budget Division instead of by our Division, so perhaps they have some method there in mind to tighten controls on operations of these Fairs.

Q But other than that and Mr. McLachlan's suggestions, you have no suggestions as to how your regulations could be made effective, other than just by his --

A I can't -- I can't think of one, sir.

SENATOR FISHER: I have no further questions.

THE CHAIRMAN: Further questions, Senator Miller?

SENATOR MILLER: No further questions.

THE CHAIRMAN: Mr. Waters.

Q BY MR. WATERS: Mr. Snider, did -- does your Division approve the employment of managers at the District, sir?

A No, sir.

Q So that the appointment of Mr. Ross at Santa Barbara was not submitted to you for approval?

A No, sir.

Q Would you have any authority for discharging a manager at any of the Districts if you found that that manager should be discharged?

A No, sir, we have no authority of that sort. That is the Board's authority.

Q Did anyone discuss the employment of Mr. Ross at the 19th District with you?

A No. Mr. Miller discussed it with Mr. Rowe and Mr. -- another member of the Board with Mr. Ross.

Q Didn't you or Mr. Miller in fact advise them not to hire Mr. Ross?

A At that time, Mr. Miller did and I will say that I was in agreement then, because we had another Fair manager who was going to be out of a job, because we did away with his District, who had been available for the job that we thought could do a better job of managing the Fair than Mr. Ross. We knew that Mr. Ross had been a good horse show manager; at least, those were reports we had from the Cow Palace and other places where he had managed a show, but we were doubtful as to his abilities -- or his temperament as an all-around Fair Manager.

Q Did you know of Mr. Ross' activities in selling ribbons and trophies?

A I knew he sold ribbons and trophies, yes.

Q Did you know that he also sells wearing apparel or those things that are commonly referred to as riding habits or trappings?

A I think I knew he had a store at Studio City, some sort of sporting goods store. I didn't know what all he sold, Mr. Waters.

Q In your opinion, as Chief of the Division of Fairs and Expositions, do you believe that these private activities of Mr. Ross are compatible with those responsibilities of a

manager of a District, particularly one which has horse shows?

A I think there is a question there, Mr. Waters. I certainly would like to check with my superiors on the incompatibility or possibility of that.

Q Don't you have an opinion, Mr. Snider?

A Yes, I have an opinion.

Q Would you care to give us your opinion?

A Well, it -- I might as well. After all, I do think there is doubt there about compatibility of it, but I wouldn't want to go any further than that, Mr. Waters.

Q Mr. Snider, who, in your Division, would approve a construction contract on a standard agreement form between the District and a contractor?

A Mr. Simington.

Q Is he to review the provisions of the contract to see they were in order?

A That's right.

Q I have here a contract entered into on the 14th day of November, 1958, by the 22nd District with Sim J. Harris Co. It reads on the back of it, "State agrees to pay the contractor \$10,490 for the fifty thousand square feet of paving." The final sentence of that very paragraph says -- oh, I'm sorry, excuse me; it's the next to the last sentence. "The total amount of this contract will not exceed \$9,990.12." Can you tell the committee how that could have been approved?

A Was it approved by the legal adviser? Is there

a stamp on there for it?

Q Yes, it's approved by Mr. Relat (phonetic), I think, but prior to that it goes through your Division, doesn't it?

A That is true.

We sent it over there for legal advisor's consideration. I -- I don't -- I didn't see the contract. I can't explain it, other than I suppose that was a way of getting around advertising for bids in the press, as I understand it.

Q The law requires if it's over \$10,000, it must be advertised for bids; is that correct?

A That is correct, yes.

Q And this one is over \$10,000, "The State agrees to pay the contractor \$10,490"?

A My only explanation to that could be, Mr. Waters, that time element in there -- I don't know how close it was to this Fair; perhaps it wasn't the time element, but if there was and if it would cost more than the difference between \$9,990 and the \$10,490 -- if it would cost more than that difference to throw out all these bids and advertise, maybe they thought across in the Department of Finance that this was a better way out, but I don't understand it, I am frank to say it.

Q Better way out to ignore the law and go ahead and execute the contract? Now, as a matter of fact, there

were a lot of contracts, executed by the 22nd District in the amount of \$9,990, were there not?

A There were several, yes, sir.

Q Does that happen at other Fairs?

A No.

Q Wouldn't your Division become alerted to the situation and recognize that this was a -- an effort to avoid conformance with the intent of the law?

A Well, so long as it stayed under \$10,000, they had no right to -- I don't know if they had the right, but they didn't have to advertise in the Southwest Builder and the local papers.

Q Well, I understand that, but when it becomes a regular practice to intentionally write all the contracts in that amount and they come through your Division for approval, it seems to me it should have occurred to someone that this was a matter that should be looked into, because it was an avoidance of the law, a patent circumvention.

A (No response).

Q Well, there are other things that we can ask Mr. Snider --

THE CHAIRMAN: Senator Fisher.

Q BY SENATOR FISHER: In that respect, as long as they did receive the service for under the \$10,000, there was not the -- an avoidance of the law, was there?

A I don't think so.

Q If the final payment was in fact less than the \$10,000?

A That's my understanding.

Q BY MR. WATERS: But, as a matter of fact --

SENATOR FISHER: Now, just a minute, Mr. Waters.

MR. WATERS: Oh, excuse me.

Q BY SENATOR FISHER: The only time when a question should have been raised, is where there was a series of contracts for the same type of work, each of them just under \$10,000. In that regard, there might be a suspicion that there was an attempt to evade the law and the State might, as a result thereof, be prejudiced by the failure to get a wide bidding; is that not correct?

A I would say there is -- I don't know about the wide bidding results. I don't know how many he called or how he advertised. I agree with your other statement, yes.

Q I think the policy of the law and the intent was that there should be wide bidding where there was a big contract to get the best possible bid.

A Certainly, that must be the intent.

SENATOR MILLER: May I interrupt to ask a question?

Q In addition, in this situation, were there not in fact bids submitted, and this was the lowest bidder; is that correct?

A Yes, that is correct.

SENATOR MILLER: That's all I have to say.

Q BY SENATOR FISHER: Well, were any of these contracts in such a series?

A Sir?

Q Were any of these \$9,990 contracts in a series for the same type of work?

A I don't recall, sir.

Q You made no attempt to find out?

A I didn't personally, no, sir.

Q Did anybody in your Division?

A I assume they did it.

Q But you do not know?

A I do not know, sir.

THE CHAIRMAN: Further questions?

MR. WATERS: Mr. Chairman I have other questions, but I think, because of the hour, that perhaps Mr. Snider would agree to answer such questions as we may have through correspondence, rather than at this time.

THE WITNESS MR. SNIDER: Sure, very glad to.

Q BY MR. WATERS: Mr. Snider, could I ask you one question: You said you have been the Chief of this Division for twenty years. Were you consulted in connection with the Department of Finance Report, which was issued a few weeks ago?

A No, sir.

MR. WATERS: All right. I will defer anything further.

THE CHAIRMAN: No further questions of these gentlemen?

Mr. Earl Roberts, the President of the Fair Board of the 22nd District Agricultural Association.

All right, Mr. Roberts, would you like to make a statement to the committee?

V. EARL ROBERTS,

called as a witness, was examined and testified as follows:

THE WITNESS: Mr. Chairman, gentlemen, my name is V. Earl Roberts. I am the President of the 22nd District Agricultural Association.

Earlier in the afternoon, Senator Fisher advised me that due to the late hour, they would not -- the committee would not be in a position to call all of the Directors, but as the President, they would like to show me the courtesy of an appearance.

I would like to state for the record that my remarks will be my personal views. I am not in any sense speaking for the Board of Directors, but rather for myself; however, after some four years of service on the Board, and three days of committee hearings, I do have some observations that I would like to make for the benefit of the committee.

First, I would like to say in -- with due respect to the other members of the Board -- 22nd District Board, the record will reveal has one of the outstanding records

of attendance so far as its Directors are concerned of any Board within the State of California. These gentlemen are all appointed without compensation. The duties of a Director are time consuming. I think that I can best explain that by telling you gentlemen that we have on several occasions met at 3 o'clock in the afternoon and adjourned for dinner at 9 o'clock at night. I say that because I feel that you should know that the members of the Board, to the best of their ability, have tried to do a good job for the State of California.

I would like to say that for many years, the Board has met with not only our tenants, but others wanting both interim use of the Fairgrounds and concessions from the Fair, with many concessionaires, sub-tenants and other interested parties; that almost without exception that every time we meet with such a group, or with such a representation, they have the benefit of counsel.

For years, this Board has met at Del Mar without the benefit of counsel. We have, and I understand that previous presidents and chairmen of the Board have, asked that they have legal counsel in attendance at our meetings and this request has been denied.

When, in January of this year, I was asked to serve as the Chairman of the Board, I insisted that I would not serve except that we do have legal counsel in attendance at the Board meetings.

For that reason and others, and because of the cooperation of the Department of Finance, we now have legal counsel. I think that in many instances, that many of our problems could have been avoided had we been properly and legally advised as to what our procedure should be. I would like to say that in -- among other things, that I would like to pay my respects and highly compliment the Director of Finance, Mr. John Carr(phonetic). Since taking office as Chairman of the Board, I have found him most sympathetic with our position and I cannot speak too highly of the cooperation I have personally had from Mr. Carr in endeavoring to solve some of the problems facing our Board.

I think that this Board is in a very peculiar position. It is one of the very few Boards in the State of California that has what we should consider a tremendous outside income, and we are faced with disposing of vast sums of money.

I do feel that there should be some system whereby a Board such as the size of ours could have, in addition to the standard administrative staff, additional help. I have reference in this respect to not only an incentive more than is now present for the manager -- our manager is very, very sadly underpaid for his responsibility; he is now being paid every last cent we are permitted to pay him, and I don't think he is properly compensated in proportion to the tremendous responsibility he has assumed.

I think that the State should consider larger Fairs to have greater staffs. I think that the manager of our institution is entitled to have an assistant manager, full-time bookkeeping help, and other assistants in operating this vast operation.

In the last year, we have been able to sell Mr. Carr on that idea. We now have a man on the staff, full-time, in charge of our horse activities. He is our liaison, so to speak, with the Del Mar Turf Club, Faesig-Tipton, and the Western Harness Racing Association. He is a professional in the business, highly qualified, and comes to us very highly recommended, and I think that had this Fair had a man such as this in times past, on their staff, we would not have had some of the problems we face today.

We have stabling facilities there for some 1,400 horses, which gives us a tremendous lead on other Fairs within the State in the stabling for our horse show, and here again, we have a problem in being able to adequately compensate the manager of our horse activities.

I would also like to say that I feel that a show as large as the Del Mar show, which plays to some quarter of a million people a year, has problems that are not faced by the average Fair within the State of California.

Now, there are larger Fairs, but they have facilities we do not have. It is forbidden for us to send any of our personnel outside the State of California to

solicit not only exhibitors, but concessionaires. I know that over the years the State Fair has had that privilege, yet Del Mar, because it is a District Fair, is denied that privilege, so we are very limited in our ability to enlarge the scope of our Fair attractions, and for this and other reasons, we are not keeping up with the increase in population in San Diego.

I would like to say that I feel that there is a -- on the other hand, I would like to say this: That so far as the Del Mar Turf Club are concerned, that so far as Faesig-Tipton are concerned, so far as Western Harness Racing Association, my personal experience and association with them throughout this entire period of confusion has been most cordial and very friendly.

I have not at any time had occasion to question their integrity or their intent to cooperatively try and work out the problems faced mutually between the various groups of people.

I have every reason to believe with Mr. Atterbury who is the manager of our horse activities at the Fair that we can work out our various problems and as you were well aware, we have these problems.

However, that is one side, one phase of our operation. On the other hand, I would be remiss in my duty to you gentlemen if I did not tell you that I have absolutely no confidence whatever in the Department of Fairs

and Expositions.

✓ THE CHAIRMAN: You are talking about the Division of Fairs and Expositions in the Department of Finance?

THE WITNESS: Yes. I have every confidence in the Department of Finance as such, but in the Division of Fairs and Expositions, it is completely another story.

I have been on this Board now for about four years, and since coming on the Board, I have endeavored to follow the manual. Now, when I say "follow the manual", I don't mean it literally, because not until I became President of the Board on the 15th of January of this year did I actually know there was such a thing as a Fair Manual. I had never seen one. One was presented to me at that time. One of the Directors went to Sacramento, and he was good enough to bring me back a copy of it.

Until that time, I had never seen the manual. I have read that portion of the manual which applies to the operation of our Fair, and had I been aware of some of the things that are in it, I would have made a different approach than I took to some of the problems involved in this Fair. I would like to, if I may, gentlemen -- I have made some notes, which I am afraid not even the young lady can read -- I would like to refer to them, if I may on various people who have appeared here today and yesterday and the day before and some observations I have made.

I would suggest that, because there are several topics

that you -- interrupt me at any time that you see fit.

First, I would like to mention the so-called Allen Ross trophies. I am the one, I guess, more than anyone else, who is responsible for this bill not having been paid. I would like to say to you, gentlemen, that I have been in San Diego, as some of the people in the audience know, some thirty-five years. I have been active in Junior Chamber of Commerce, Senior Chamber of Commerce, Propeller Club, and various other activities in the City of San Diego.

When I went on this Board, I was advised by some local merchants that they were not happy with the fact that they were not invited to participate in some of the business activities at the Fair. I was told that among other things, that the purchase of ribbons and trophies was completely sewed up, that the business went out of town, and that the local merchants felt they should be entitled to participate in this business. Unfortunately, I was advised of this in 1958; before it was possible to participate in this business, I suggested to these local merchants that they, well in advance of the 1950 (sic) Fair, express themselves as being interested in participating in this business. They tell me that when they did inquire, they were advised that this business had already been let. There was nothing at the time. I am sorry I didn't make notes. These are verbal reflections, and at the time I was told this, there had been no action taken by our Board

of Directors as to these trophies. Subsequent to that, the trophies were purchased and they were awarded, as you know, last year at the Fair. The bills had not been submitted and when the bills were submitted, I expressed myself as being opposed to the payment of them, because they had not been submitted to bid. I had the trophies examined during the Fair. I was severely criticized within the organization of the Fair for having entered the room in which the trophies were stored, but I took it upon myself to examine these trophies to determine their quality, and I was advised by a competent authority that a local company would not have its invoice used to distribute and sell the type trophies that we were awarding at the show.

I subsequently refused to agree to pay the bill, because it had not gone to bid, and for the record, I would like you to understand that in discussing these invoices, which has been previously discussed -- have been previously discussed, the original invoices, and I have -- I don't have them available to me, but the original invoices for these trophies did not carry any discount. It was --

SENATOR FISHER: No discount?

THE WITNESS: No discount. It was subsequent to the original refusal that a discount was offered, but originally, they did not carry a discount.

I would like to go on record as saying that I refused payment, that subsequently word was sent down from

Sacramento to the Board that they would appreciate in Sacramento if we would take and dispose of the matter of the trophies, because it was embarrassing to Fairs and Expositions in Sacramento. I believe we were to hold a special meeting to dispose of this item, and when the matter -- we did not hold a special meeting, and the matter came up in regular session; it was suggested that the management had been advised by the Department of Fairs and Expositions that if unanimous consent of the Board were taken, that the trophies and ribbons could be paid for, and the matter would be dropped, and I think there are members of the Board present at this time, and former members of the Board who are well aware that I said that before anyone on the Board was embarrassed on this matter, that they should know before a motion was made, that I would not give my consent to the paying of this bill in order to clear the Department of Fairs and Expositions.

Therefore, this bill has not been paid, and I will take the responsibility for its not having been paid. I take it in the name of the local merchants whom I think were not properly given a chance to bid on this business, and I don't think these trophies were properly purchased.

Q BY SENATOR FISHER: Mr. Roberts, do you know or were you advised as to who had called the 22nd Agricultural District to -- from the Division of Fairs and Expositions, requestion that you hold a special meeting for the purpose of

approving these bills?

A No, sir, I don't know who called, which person within the Division called. I don't know.

Q But somebody within the Division did call the 22nd District and asked you to hold a special meeting?

A That is right.

Q Approving bills for the reason that it would avoid embarrassment to the Division of Fairs and Expositions?

A That is correct. That is correct.

Q And when you received that advice, you called me in Sacramento and asked whether or not that meeting should be held?

A That is correct.

Q I suggested to you that in the -- you let the normal course of events occur, rather than to take anybody off the hook.

A That's correct.

Q All right.

A When I first came on the Board, gentlemen, there are several items and I know the hour is late, but for the record, the only information given to a Director when he comes on the Board -- I say "a director" -- the only information I received was a Director's handbook of District Agricultural Associations. You gentlemen probably are aware that such a handbook is in existence; it's a very small book. It, in eleven pages or twelve pages, gives a Director his

complete indoctrination. I don't want to bore you with the complete contents of it. However, I do want to state that it says on page 3, "All activities of the association are to be conducted in the same sound principles of efficient and successful management that apply to private business."

Now, it is interesting to note, and I make this as an observation, that over the years, since I have been on the Board, when new Directors have come on the Board and have read this sentence, that they have conscientiously endeavored to follow that direction.

I am here to say that it is absolutely impossible to follow these directions for various reasons. I would like to state over here that on page 5 it says, "Require the manager to forward to each Director a typed copy of the minutes of the meeting within three days after such meeting and also a certified copy to the Fairs and Expositions Division. This will enable the Division to inform the Board of actions which may not conform to provision of law, or rules established pursuant to such laws."

If you gentlemen will examine within the Department of Fairs and Expositions, the minutes of the meetings of our Board, you will find that almost without exception over a period of years, that not within three days did the Directors receive these minutes, but they received these minutes as a rule on the Thursday or Friday preceding the succeeding meeting, together with a notice to come to the

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next meeting.

Now, as I understand it from reading the manual, which elaborates on this provision. The reason for this is so that within three days of a meeting, a Director has a pretty good idea of what he said, but I challenge anyone of you gentlemen thirty days from now to repeat what you have said at this meeting today and that's the position our Directors have been in.

Now, I have a very strong feeling that this has been, and should be, the responsibility of Fairs and Expositions to insist that the managers of these Fairs submit these minutes within three days, because they receive a copy, a certified copy, and this has been going on for years, and this is one of the reasons that some of the things and some of the items contained within these minutes may not necessarily reflect the true meaning as it took place.

It says on page 6 -- it covers it very carefully, "Require the manager to obtain bids for purchase, service or construction, for the letting of concessions." It advises on page 7, "Instruct the manager not to make commitments obligating the association, or to enter into any agreements without prior approval of the Board."

Now, I don't want to dwell on that one. Senator Collier dwelled on it yesterday. There have been instances where things have been done at the Board -- at the Fair that were not done with the approval of the Board, and I

question Senator Collier was quite fair -- unfair to Directors when he said that management is quite within its rights in sending out such a letter. He is not aware of the fact, I'm sure, that things are done without the approval of the Board, in advance of Board approval, and I want to clear that up, because I don't think the statement was fair to conscientious businessmen who are trying to do a job.

When I came on the Board, I would like to discuss for a minute the matter of bills payable -- bills payable were on a penciled slip of yellow foolscap paper and the items were rattled off without any Director having a copy, and the -- all the Directors knew was the total amount of the bills to be paid, and subsequent to that date, if something was added or taken out, there was no way in the world for a Director to know that a change had been made in the schedule of bills.

Since I have been the President and since the new manager has arrived, I am happy to say that he is getting the minutes out within the three minutes. He submits a financial statement each month at the Board meeting, and the bills payable are typed and each Director is furnished with a list of the bills payable.

SENATOR FISHER: Say, you have added something. You get them in within three minutes.

THE WITNESS: Three days, excuse me. Did I say three minutes? We are not doing quite that well, Senator.

I would like to say in respect to our association with Mr. Jenuine and the Western Harness, that we are practically in complete agreement at this time as far as the Western Harness Racing Association is concerned, and I have every reason to believe we will work out a satisfactory solution.

Mr. Stark made the statement yesterday that he understood that I had said that he had occupied stables at the Fair for a matter of five years. I discussed this with Mr. Stark after he left the witness stand and assured him I made no such statement. He understands now I was misquoted because we have a complete understanding. At no time did I make such a statement about Mr. Stark.

I would like to say with reference to audits that these audits -- I think the matter has been covered very carefully. We have approximately \$400,000 of income a year from outside sources. It has been the -- we have been told and told repeatedly that we -- if we do not dispose of our funds, that they will revert to the General Fund of the State of California, and local people are very anxious that the revenues derived from a local activity remain within this District. I think these funds should be conserved in San Diego where they are produced, and I think that if the people involved would properly follow the manual, that it would not be necessary.

I would like to just say in passing that I -- I do business from a manual, gentlemen, and I think it's the

finest way in the world to do business, because it tells you what to do and how to do it, and if the people would follow the manual and the manual were amended as necessary, that it is a fine system of operation, because it does protect the man on the firing line. He knows he has the protection of the manual if he so abides by it. I am very strong for it. I would like to state further that it is not the policy of the 22nd District to exceed its budget. I doubt very much that we ever have. I am not aware that we have, and if other Fairs within the State of California are doing such a tremendous job and San Diego County Fair is not doing such a tremendous job, it would seem to me that this would give the Division of Fairs and Expositions a little excess time to help us with some of our problems.

I do not -- Mr. Snider made the statement, as I understood it, that one man is in the field to assure accurate reports from these Fairs. In the four years I have been on the Board, I do not have any recollection of anyone ever having sat in on one of our meetings from Mr. Snider's Department for the purpose of determining that we are making accurate reports on our meetings.

As a matter of fact, I think that not more than once or twice, to my knowledge, has Mr. Snider, or his office, sat in on a meeting of our Board.

I would like to clear up another item that doesn't seem to have been covered completely, and that is the matter

of the \$9,999. These contracts, gentlemen, are not for \$9,999 as such. They principally covered paving, and when the bids were put out for paving, they were put out on a square foot basis, and it was a multiplication of the number of square feet against the price per square foot, which determined these contracts. We have been advised and have conscientiously done this with the knowledge and advice of counsel of the Department that the way we should handle our paving contracts, is to do it on a basis of -- of getting a bid on the square foot basis, multiplying it out to keep it under the ten thousand, and then let a contract on that square foot basis. I honestly don't feel that there was any intent on the part of the Board or the manager to circumvent the law in this respect. I think it was the -- the formula was a square foot formula, and it was a progressive deal where we had the funds, and we were trying to get the parking lot paved, and paved as we could use up the funds and have the space available for the paving, but I would like to reiterate that it was done on a square foot basis.

The gentleman from the Purchasing Department said that his department handled the purchases. This hasn't been done in the past. I question that it is even advisable in the complete manner, because we have such an instance recently here not too long ago where a Los Angeles firm was awarded a contract over a San Diego firm to supply our Fair Board with a purchase where the Los Angeles firm was

forty-two dollars above the San Diego firm on the bid for the same material.

When I looked into this and checked into it, I found that the reason for it was that this was a lump purchase. The purchasing division had lumped these items together and they had one or two items in here that couldn't be supplied by the local supplier, so he lost the major portion of the bid, because there were one or two small items he couldn't supply. I don't think this is correct. I think that we should be privileged wherever possible to make our purchases locally if the -- particularly if the local purchase can be made at equal or less than the Los Angeles purchase.

I am about to run down here.

Any questions?

SENATOR FISHER: I have just one question; then, we will let you off, I think.

THE CHAIRMAN: Senator Fisher.

Q BY SENATOR FISHER: Mr. Roberts, do you feel that the hearing of the last few days has been helpful in clearing the air for your Fair Board as to what the circumstances are within which you are working and where you --

A I do indeed, Senator. I would like to state that from my personal observation that I have not at any time used the approach that I would like to terminate our association with the Del Mar Turf Club. I think that the last

few days has certainly demonstrated to you gentlemen that it is a matter of interpretation as to our relationship, and I don't think it's a very easy interpretation to arrive at, and therefore, I think you can well understand that we were away out in left field and didn't know where the ball was.

Q Do you feel that the operation of the Fair in the future will be benefited by having held these hearings?

A I do.

Q In this manner?

A I think the atmosphere has been cleared considerably.

Q And do you feel that in the future that if some additional controls are required by the Legislature to be exercised by the Division of Fairs and Expositions to give a more consistent helping hand to fairs such as yours that this will be a benefit?

A Well, I would like to "yes" that, Senator, and then add to it that unless such a procedure is established, I question the ability of the State of California to get competent businessmen to give the time to acting as Directors of such a fair.

Q You feel you have not had that kind of help so far from the Division of Fairs and Expositions?

A I am thoroughly and honestly convinced of it.

In closing, Mr. Chairman, I should say, in fairness,

that the immediate past President of the Fair Board is no longer on the Board. He has been subpoenaed here as a witness for three days, during which time he has been in the room and patiently listening, and a lot of things have been said about his administration of the Fair. I honestly feel that he is just due a few minutes of your valuable time out of respect to his having waited and having been here.

Mr. Lipton.

THE CHAIRMAN: Mr. Lipton. Thank you very much, Mr. Roberts. We appreciate the remarks which you have addressed to us, and now I would like to state that if any of the members of the Board of Directors of the Fair have any matters which have not been covered by Mr. Roberts or during these hearings in the interest of time, we would appreciate hearing them very briefly as possible, and Mr. Roberts has mentioned Mr. Lipton.

Mr. Lipton, do you desire to say anything at this time?

MR. LIPTON: No, Senator, if I did, I would disagree with Mr. Roberts to quite an extent and it might take up a little too much time.

SENATOR FISHER: I wonder, Mr. Chairman if --

THE CHAIRMAN: Senator Fisher.

SENATOR FISHER: It might be helpful if there are any disagreements of a substantial nature, or anything that

any of the Directors, past or present, would like to add to the record, if they could submit those in writing and have them made a part of the Committee's record. I think that probably most of what would be said would be fairly cumulative, but I expect they are as tired of sitting here for three days as I guess our stenotypist here is.

May I suggest that that might be a proper way to handle it?

THE CHAIRMAN: Thank you, Senator Fisher, and I invite any of the Directors who wish to submit to us a statement in writing of any views they may feel that they would like to present, and now we have had evidence that -- Oh, Mr. Oakes, did you wish to say something? I think you indicated sometime this afternoon that you would like to.

ROBERT A. OAKES,

recalled as a witness, was examined and testified further as follows:

THE WITNESS: Senator Arnold, Senator Fisher, Senator Donnelly: My name is Robert Oakes. I have heretofore testified in these proceedings.

As attorney for the Operating Company, Del Mar Turf Club, I want to express its appreciation for the fair and impartial manner in which this hearing has been conducted insofar as the interests of the Turf Club are concerned. We feel that this hearing has produced many beneficial

results that will help us in our future sharing of the facilities of the Del Mar Fairgrounds on a mutually cooperative basis with the District.

Thank you very much.

THE CHAIRMAN: Thank you very much.

Now, in closing, I want to make a short summary. I think we have had evidence that at this and other Fairs, there have been practices followed which are, to say the least, loose and unbusinesslike and incapable of post-audit. It would appear that this is the fault of a number of people, the Fair Boards, the Managers, the State Division of Fairs and Expositions and the statutory provisions of law for which we in the Legislature must take our fair responsibility.

It would appear that there are many areas where the Divisions of Fairs and Expositions could be giving assistance to the Districts. We have seen that there is a need for a better control generally, and we have had testimony here indicating the Districts have allowed people to use State property without proper agreements, even to the building of structures on State property.

We have had contracts of services and construction entered into without conforming to law or regulation.

Our committee is the Fact Finding Committee on Governmental Administration, and we feel that if this committee is to carry out the function assigned to us by the State Senate, that we must objectively look at, and take,

facts as we find them, even though at times they may be unpleasant, and we attempt to do our job without fear or favor. The committee will issue a report at a later date, and I feel certain there will be recommendations for legislation.

For myself and the members and the staff and counsel of this committee, I want to thank those of you who have patiently attended and appeared here before the committee. I want to thank the President of our State College for making available this auditorium. I want to thank our good friend and highly esteemed colleague Senator Fisher, and through him, the people who cooperated with us in making this examination, and too, all the good people who extended us so many courtesies and made our meeting here and our stay here a pleasant one.

I again want to repeat that our purpose is not to hinder or abolish any Fair, but to make them more efficient and successful, and with that, I will declare the committee adjourned.

Thank you.

(Whereupon the committee was adjourned.)

STATE OF CALIFORNIA)
: ss
COUNTY OF SAN DIEGO)

I, MARTHA L. COLE, Certified Shorthand Reporter,
licensed by the State of California, do hereby certify
that the foregoing constitutes a full, true and correct
transcript of my shorthand notes taken in said proceedings.

Martha L. Cole
Certified Shorthand Reporter

STATE OF CALIFORNIA)
: ss
COUNTY OF SAN DIEGO)

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Certified Shorthand Reporter